AR91

WAWANESA INSURANCE **2009** ANNUAL REPORT

Wawanesa

Earning Your Trust Since 1896

SUBSIDIARY COMPANIES

THE WAWANESA LIFE INSURANCE COMPANY

400–200 Main Street
Winnipeg, Manitoba R3C 1A8
100% Owned
Book value of shares $82,698,000

WAWANESA GENERAL INSURANCE COMPANY

9050 Friars Road
San Diego, California 92108
100% Owned
Book value of shares $136,239,000

Wawanesa
Earning Your Trust Since 1896

PRESIDENT'S REPORT

Last year at this time, everyone was seriously concerned over the financial crisis that developed in mid-2008 and continued to deepen into the early part of 2009. I discussed the impact of these events on the financial condition of our Company in last year's report. While we were never threatened by the fallout from the crisis, due to the surprising recovery of financial markets during the latter part of 2009, I am pleased to report that much of that impact has now reversed. Our investment portfolio regained much of the decline experienced in 2008 and we are reporting strong investment income. In spite of the economic recession, we experienced good growth in the year. Every region reported increases in both policy counts and written premiums. There were a number of firsts this year. For the first time, consolidated written premiums exceeded $2 billion, total assets exceeded $5 billion while total equity surpassed $2 billion. These are all significant milestones for our Company.

The senior management team completed its first full strategic planning session during the year which culminated in the development of a strategic plan that was presented to the Board of Directors for discussion and approval. The plan has been communicated to all employees via OnBoard, our employee intranet site and through meetings and discussions within various offices. From a general corporate standpoint, the plan includes a mission statement, a set of six company values and eight corporate goals. It also establishes objective measures for each of the goals. Together, these will provide us with guidance in our approach to business issues in the years ahead. While we have always operated with total integrity and taken a long-term perspective to the successful development of our business, the establishment of a mission statement, values and goals provides greater clarity regarding what it means for Wawanesa to be successful and how we will go about achieving success in the future.

Within our Information Services area, we continue to focus on improvements to the systems that support our insurance operations. We are following the principles established in our Enterprise System Renewal Strategy and in that regard, launched a major project to replace our existing claims system with Guidewire's ClaimCentre. The Guidewire system is a state-of-the-art system with in excess of 50 installations worldwide including some in Canada. The project is under way and progressing very well with implementation expected in late 2011. There are currently two other major IS initiatives in progress. The Business Intelligence project includes the implementation of new systems for budgeting, planning and reporting and the development of an enterprise data warehouse. The new budgeting, planning and reporting system will enable us to become more sophisticated and timely in our financial management of the Company. The data warehouse will provide us with improved capability to quickly and easily access and analyze all of the insurance data we collect. This enhanced data analysis will allow us to manage product design, pricing and underwriting with increased precision. The Broker Portal project is now focused on the development of electronic transaction connectivity with brokers. The project has three phases. Phase one enables brokers to electronically submit automobile endorsement transactions at the Wawanesa portal. This has been successfully piloted to a few brokers and will be fully rolled out in 2010. Phase two includes the same capability for property endorsement transactions and all new business transactions. This is planned for completion in 2010. Phase three is the integration of our portal with various broker management systems to enable the most efficient method of accepting policy transactions from brokers. This project is going very well and has excellent potential for significant service improvements to our brokers and customers. In addition to these major initiatives, many other system improvements are being introduced on a regular basis and we continue to perform research on the next components of the Enterprise System Renewal Strategy.

We have continued to reinforce resource levels in many executive office departments including Products, Actuarial, Finance and Legal. There are many challenges in these areas including those presented by the various external environments in which we operate and an aggressive internally generated list of desired improvements. The challenges include product development (including legislated changes), increased rate change activity in response to market conditions, the introduction of international financial reporting standards and an increasing focus on privacy and other compliance matters. We have also increased resources in our Human Resources area in support of the implementation of a human resources information system for our Canadian operations

and many other initiatives designed to improve the effectiveness and consistency of our human resources practices and processes. These include improvements to our employee communication, succession planning, performance management and recruitment activities.

FINANCIAL RESULTS

Growth was acceptable in all areas and very good in many areas. In-force policy count increased by 3.6% while consolidated written premiums increased by 9.8% to $2.1 billion.

We are reporting an underwriting loss of $79 million in 2009. While disappointing, it is improved over the loss of $94 million in 2008. There are three major negative contributors to these results. First is the effect of a lower interest rate environment on the calculation of discounted claims reserve totals. This accounted for approximately half of the underwriting loss. The second major contributor is the terrible results experienced in the Ontario automobile market. Claims costs have risen dramatically as a result of overly generous benefits provided by the statutory automobile policy. This industry-wide problem has been recognized by government and reforms are being introduced for implementation in mid-2010. In response to the rapid rise in claims, we have implemented significant rate increases. We hope the reforms are strong enough to allow for some premium relief to our policyholders who are being affected by these large premium increases. The third contributor is generally deteriorating results in the personal property line in many regions. More severe weather events are causing increases in both claims frequency and severity. In response, we are increasing premium rates in the affected regions but in addition, are modifying our rating approach to ensure that rates charged in a territory better reflect the actual experience and risk of the territory for all of the major claims categories including fire, theft, wind and hail, water and sewer.

As mentioned above, our investments recovered substantially in the year. We are reporting healthy investment income of $182 million but more important is the fact that the market value of our investment portfolio has reversed such that we now have unrealized gains of $162 million compared to unrealized losses of $156 million at the end of 2008. That is a very substantial turnaround.

We are reporting net income of $100 million, much improved over 2008. Given the turmoil in financial markets and challenges in insurance markets, this is a very positive result.

Because our investment portfolio regained much of the decline in value experienced in 2008, other comprehensive income for the year is $177 million compared to a loss of $245 million in 2008.

Total comprehensive income (including net income of $100 million and other comprehensive income of $177 million) totalled $277 million and served to increase total equity to $2 billion. Our minimum capital ratio remains very strong at just under 300%, twice the regulatory requirement and we continue to be rated A+ (Excellent) by A.M. Best.

REGIONAL RESULTS

The Maritime Region continued with strong growth in 2009. Policy count was up 6.1% with written premiums up 6.3%. The region is reporting acceptable overall underwriting results. However, while auto results are quite good, consistent with many regions, property results are becoming a problem that will be addressed in 2010. Regarding the constitutional challenge to the minor injury cap in Nova Scotia, while a decision by the NS Appeal Court supported the original decision that the cap is constitutional, there is still some possibility of an appeal to the Supreme Court of Canada.

In Quebec, we are reporting modest policy count growth of 1.9% with written premium growth of 5.2%. Underwriting results in the automobile line are acceptable but property results are disappointing due to significantly increased fire losses. We intend to achieve higher levels of growth in Quebec and in that regard, are currently reviewing our rating approach to ensure we are competitively positioned in the market.

The Ontario Region grew notably in 2009, 10.6% by written premium and 8.0% by policy count. This occurred in a very challenging marketplace. The region experienced a substantial underwriting loss in 2009, mostly in the auto line but also in the property line. Property results were impacted by increased severe weather activity while auto results were related to the problems mentioned above.

The Winnipeg Region had a good year with strong growth and acceptable underwriting results. Growth was good with a policy count increase of 4.2% and written premium increase of 9.0%. While an underwriting loss is being reported, it arises mainly from the Northwestern Ontario auto market which is serviced from Winnipeg.

The Prairie Region had a very good year. Growth was somewhat of a challenge with only a slight increase in policy count but with an increase of 8.5% in written premium. However, underwriting results are excellent with a profit of $13 million being reported. In particular, Saskatchewan results were great. Surprisingly, we experienced no weather catastrophes in the province in 2009.

A number of factors affected the operations of both our Alberta regions in 2009. In both regions, underwriting results in the property line were poor. This was partly the result of the wind and hail storm that affected a large part of central Alberta at the beginning of August. This storm, which occurred over a three-day period, resulted in over 6,000 claims for a total loss of $84 million. While we have reinsurance in place for catastrophes of this size, there is still a very significant impact on our results. The automobile insurance situation stabilized in the year with the final determination that the province's minor injury regulation does not violate the Constitution. It is a relief that this uncertainty has been removed. In general, automobile results in the province were good in 2009. Southern Alberta reported modest growth in 2009 with a 1.2% increase in policy count and 9.7% in written premium. In the Northern Alberta Region, growth was stronger with a 4.1% increase in policy count and 15.7% written premium increase.

In the British Columbia Region, growth was steady with increases of 1.8% in policy count and 6.2% in written premium. We are reporting a breakeven underwriting position, which is a positive result considering the year started poorly with severe weather in the first few weeks of the year.

Our United States operations reported steady growth with a policy count increase of 1.7% and written premium increase of 3.9%. While these growth rates are less than we have experienced in recent years, they are quite satisfactory given the economic conditions in the state of California. A small underwriting loss is reported. The property line is quite profitable while the auto line is in a loss position in both California and Oregon. We will be carefully studying our rates and competitive position in both jurisdictions in 2010.

WAWANESA LIFE

Strong, positive earnings were recorded by Wawanesa Life as it also rebounded from the negative effects of the financial market turmoil experienced over the last couple of years.

Total assets under administration which include the segregated funds have increased by $90 million to reach a total of $687 million. Approximately one-third of that increase is due to investment purchases while two-thirds arises from increases in the value of our investments as a result of improved financial market conditions. Investment income has improved to $51 million due to increased market values of the investments supporting policy liabilities. Because of the Company's asset/liability matching policies, this improvement in investment income is largely offset by a similar increase in policy reserves.

Overall premium income is slightly better than 2008 at $89 million. Significant growth in life insurance premium was offset by reductions in health and annuity premiums. Most benefit and expense totals are comparable to last year's results except for an increase in maturities and surrenders as policyholders directed more of their investment dollars into segregated funds. Operating expenses have grown as the Company continues to invest in its operational infrastructure to better service policyholders and brokers.

Wawanesa Life is reporting net income of $5.1 million. The unrealized market value of the investments supporting the Company's capital position improved significantly during the year and this improvement is reflected in other comprehensive income of $6.4 million. When combined with net income, the result is total comprehensive income of $11.5 million.

New business sales of individual insurance totalled just over $5 million, 8.7% less than 2008. This ends the streak of best ever sales results that we have experienced over the last few years, a significant accomplishment that would be very difficult to maintain continuously. However our persistency ratio remains strong and as a result, premium income has improved 4.4% to $37.6 million. Continued premium growth, reasonable mortality gains and improved stock market performance are contributing to the profit being reported in these lines of business.

In 2009, we observed increased competitive pressure on individual product pricing after several years of fairly stable rates. In 2010, we will undertake a review of our term product portfolio to ensure its continued competitiveness in the marketplace.

The Group Operation experienced improvement in its new business premium in 2009 reaching $2.3 million, or 14.4% better than last year. However improved sales growth did not translate into premium growth as

premium income totalled $23.5 million, down slightly from 2008. Lower premium income, reduced mortality gains and an increased number of disability claims during the year resulted in a loss from operations for the group lines of business.

Growing the group premium base is key to producing consistent, profitable results. To help with this goal, the Group Operation launched a new product late in 2009 that targets employers with 3 to 9 employees. This moves the Company into a new segment of the group insurance market and is opening doors to new broker contacts.

Wawanesa Life continued its track record of financial strength in 2009. The MCCSR (Minimum Continuing Capital and Surplus Requirements) ratio is now in excess of 250%, continuing to be above industry standards and significantly above the minimum requirement set by the Office of the Superintendent of Financial Institutions. In addition, Wawanesa Life continues to be rated as A (Excellent) by A.M. Best.

ACKNOWLEDGEMENTS

There were two senior management appointments in 2009. Maya Cote-Johnson, CIP was appointed Regional Vice President, Southern Alberta Region in June. Maya has been with Wawanesa for 25 years, both in Wawanesa, Manitoba where she served as Property Manager and in Calgary where she was in charge of marketing immediately prior to her appointment. She succeeded John Breau who served the Company for 29 years in three regions. During his career, John held positions of Automobile Manager in Toronto, Vice President, Automobile Underwriting in Executive Office and lastly Regional Vice President, Southern Alberta Region. Graham Haigh, FCIP, CAIB was appointed Regional Vice President, British Columbia Region in August. Graham has many years of experience in the insurance industry and came to us from another mutual insurer. He replaced Ken Coates who retired due to ill health after a 22-year career with Wawanesa.

We thank both John and Ken for their dedication and commitment to our Company and wish each of them well in their retirement.

Our key stakeholders are our customers, brokers and employees. During 2009, we initiated formal surveying of all three groups. In general, the results of all surveys were very good and we take pride in that. But there were areas where we believe we can improve and we will work on those in the future. I would like to thank all three stakeholder groups for their continued commitment to our Company; our customers who trust us to meet our commitments to them in case of a loss; our brokers whose belief in Wawanesa allows them to recommend us to their clients; and our employees who provide service to our brokers and policyholders and demonstrate to each why their faith in Wawanesa is not misplaced. We are working hard to enhance our value proposition to each stakeholder.

Ken E. McCrea, CA, FLMI
President and Chief Executive Officer

AUDITORS' REPORT

Founded in 1896
Incorporated May 1, 1929

Head Office
Wawanesa, Manitoba

Executive Office
900–191 Broadway
Winnipeg, Manitoba

OFFICERS AND CORPORATE MANAGEMENT

K. E. McCrea, CA, FLMI
President and Chief Executive Officer

G. N. Bass, Q.C.
Vice President, General Counsel and Secretary

B. A. MacKinnon, FCAS, FCIA, MAAA
Vice President and Chief Actuary

G. J. Timlick, CA
Vice President and Chief Financial Officer

P. R. Goodman, CA
Vice President and Comptroller

S. J. Goy, ACAS, CIP
Vice President, Insurance Products

R. G. LaPage, FCIP, CRM
Vice President, Regional Insurance Operations

C. R. Loeppky, BScCS
Vice President, Information Services

C. B. Luby, FCIP, CRM
Vice President, Marketing and Business Development

B. K. MacIntyre, BBA, FCIP
Vice President, Claims

T. L. Nelson, FLMI/M, CHRP, CIP
Vice President, Human Resources

P. R. Mulaire, CMA, FCIP, CIA
Manager, Internal Audit

TO THE DIRECTORS OF THE WAWANESA MUTUAL INSURANCE COMPANY

We have audited the consolidated balance sheet of **The Wawanesa Mutual Insurance Company** as at December 31, 2009 and the consolidated statements of operations, equity, comprehensive income (loss) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Note 4 describes the policy with respect to the non-consolidation of a 100% owned subsidiary, The Wawanesa Life Insurance Company, whereby the investment is recorded on the equity basis. In this respect, the consolidated financial statements are not in accordance with Canadian generally accepted accounting principles. Note 6 includes information on significant balance sheet and statement of operations items of the subsidiary. Had the financial statements of the subsidiary been consolidated, virtually every account in, and the information provided by way of notes to, the accompanying consolidated financial statements would have been affected by the underlying information of the subsidiary.

In our opinion, except for the effect of not consolidating The Wawanesa Life Insurance Company, as described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
February 23, 2010, Winnipeg, Manitoba

PRICEWATERHOUSECOOPERS

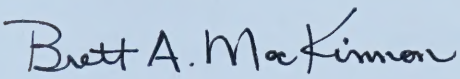
"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

THE WAWANESA MUTUAL INSURANCE COMPANY
APPOINTED ACTUARY'S REPORT

TO THE DIRECTORS OF THE WAWANESA MUTUAL INSURANCE COMPANY

I have valued the policy liabilities of the Company for its consolidated balance sheet as at December 31, 2009 and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice including selection of appropriate assumptions and methods.

In my opinion the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the result of the valuation.



Brett A. MacKinnon, FCAS, FCIA, MAAA
February 23, 2010, Winnipeg, Manitoba

BRANCH OFFICES

Maritime
1010 St. George Boulevard
Moncton, New Brunswick
B. E. MacKenzie, CIP
Vice President, Maritime Region

Québec
8585 Décarie Boulevard
Montréal, Québec
C. Auclair, PAA
Vice President, Québec Region

Ontario
100–4110 Yonge Street
Toronto, Ontario
T. R. Greer
Vice President, Ontario Region

Winnipeg
700–200 Main Street
Winnipeg, Manitoba
E. Rossong, FCIP
Vice President, Winnipeg Region

Prairie
Wawanesa, Manitoba
W. G. McGregor, FCIP
Vice President, Prairie Region

Northern Alberta
100, 8657–51st Avenue
Edmonton, Alberta
N. D. Miller, FCIP
Vice President, Northern Alberta Region

Southern Alberta
600, 708–11th Avenue S.W.
Calgary, Alberta
M. M. Cote-Johnson, CIP
Vice President, Southern Alberta Region

British Columbia
400–1985 West Broadway
Vancouver, British Columbia
G. R. Haigh, FCIP, CAIB
Vice President, British Columbia Region

United States
9050 Friars Road
San Diego, California
D. J. Goss
Vice President, United States Operations

THE WAWANESA MUTUAL INSURANCE COMPANY
CONSOLIDATED BALANCE SHEET

	As at December 31	
	2009	2008
	('000s)	
Assets		
Investments (note 5)	**$ 4,339,505**	$ 3,757,644
Accrued investment income	**24,702**	25,125
Receivables	**597,420**	487,094
Income taxes recoverable	**–**	86,549
Investment in subsidiary (note 6)	**82,698**	67,780
Real estate – at cost, less accumulated depreciation of $31,501 (2008 – $29,761)	**43,808**	44,775
Furniture and equipment – at cost, less accumulated depreciation	**13,582**	13,542
Due from Facility Association	**12,148**	10,488
Deferred acquisition expenses	**187,509**	161,115
Future income taxes (note 9)	**15,302**	62,112
Total assets	**$ 5,316,674**	$ 4,716,224
Liabilities and equity		
Bank indebtedness	**$ 40,030**	$ 12,212
Unpaid claims (note 7)	**2,028,062**	1,870,848
Income taxes payable	**67,731**	–
Other liabilities	**134,922**	127,249
Unearned premiums	**1,042,727**	979,189
Total liabilities	**3,313,472**	2,989,498
Total equity	**2,003,202**	1,726,726
Total liabilities and equity	**$ 5,316,674**	$ 4,716,224

Approved by the Board of Directors

K. E. McCrea Director D. C. Crewson Director

The accompanying notes constitute an integral part of the consolidated financial statements.

THE WAWANESA MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF OPERATIONS

	For the year ended December 31			
	2009		2008	
	('000s)			
Gross premiums written		**$ 2,091,657**		$ 1,905,440
Premiums ceded		**(43,589)**		(32,366)
Net premiums written		**2,048,068**		1,873,074
Increase in unearned premiums		**(89,137)**		(54,577)
Net premiums earned		**1,958,931**		1,818,497
Instalment service charges earned		**29,045**		26,121
		1,987,976		1,844,618
Deduct: Claims incurred	**$ 1,575,277**		$ 1,480,087	
Expenses incurred	**491,439**	**2,066,716**	458,561	1,938,648
Underwriting loss		**(78,740)**		(94,030)
Net investment income (note 5)				
Realized gain (loss) on sale of available-for-sale assets		**11,513**		(48,020)
Other net investment income		**170,735**		164,090
		182,248		116,070
Income before income taxes		**103,508**		22,040
Income taxes (note 9)				
Current	**(31,681)**		12,502	
Future	**39,800**	**8,119**	(4,633)	7,869
Income before the following		**95,389**		14,171
Income from subsidiary		**4,199**		4,878
Net income for the year		**$ 99,588**		$ 19,049

The accompanying notes constitute an integral part of the consolidated financial statements.

THE WAWANESA MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF EQUITY

	For the year ended December 31	
	2009	2008
	('000s)	
Retained earnings		
Balance – beginning of year	**$ 1,872,770**	$ 1,853,721
Net income	**99,588**	19,049
Balance – end of year	**1,972,358**	1,872,770
Accumulated other comprehensive income (loss) – net of taxes		
Balance – beginning of year	**(146,044)**	99,425
Total other comprehensive income (loss)	**176,888**	(245,469)
Balance – end of year	**30,844**	(146,044)
Total equity	**$ 2,003,202**	$ 1,726,726
Accumulated other comprehensive income (loss) – net of taxes (note 9)		
Balance – end of year consists of:		
Net unrealized gain (loss) on available-for-sale assets	**$ 94,022**	$ (125,382)
Unrealized loss on translation of financial statement operations with US dollar functional currency to Canadian dollar reporting	**(66,657)**	(19,142)
Other comprehensive income (loss) on equity investment	**3,479**	(1,520)
Balance – end of year	**$ 30,844**	$ (146,044)

The accompanying notes constitute an integral part of the consolidated financial statements.

THE WAWANESA MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the year ended December 31	
	2009	2008
	('000s)	
Net income for the year	**$ 99,588**	$ 19,049
Other comprehensive income (loss), net of taxes (note 9)		
Unrealized gain (loss) on available-for-sale assets	**226,280**	(333,972)
Reclassifications to net income for available-for-sale assets	**(6,876)**	35,892
Unrealized gain (loss) on translation of financial statement operations with US dollar functional currency to Canadian dollar reporting currency	**(47,515)**	59,075
Other comprehensive income (loss) on equity investment	**4,999**	(6,464)
Total other comprehensive income (loss)	**176,888**	(245,469)
Total comprehensive income (loss)	**$ 276,476**	$ (226,420)

The accompanying notes constitute an integral part of the consolidated financial statements.

THE WAWANESA MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31	
	2009	2008
	('000s)	
Cash provided by (used in)		
Operating activities		
Receipts		
Premiums received	**$ 1,994,776**	$ 1,860,715
Investment income received	**203,459**	194,974
	2,198,235	2,055,689
Payments		
Claims paid, net of reinsurance recovered	**1,473,019**	1,266,541
Expenses paid	**523,244**	467,399
Income taxes recovered	**(104,571)**	(68,520)
Change in other assets and liabilities	**(9,766)**	10,732
	1,881,926	1,676,152
Net cash from operating activities	**316,309**	379,537
Investing activities		
Bonds purchased	**(6,275,108)**	(5,220,076)
Bonds sold, redeemed or matured	**5,958,688**	4,937,963
Stocks purchased	**(542,757)**	(198,906)
Stocks sold or redeemed	**515,589**	172,347
Furniture and equipment, net	**(5,207)**	(5,178)
Real estate improvements	**(3,020)**	(469)
Other assets, net	**(22,054)**	(4,993)
Foreign exchange	**29,742**	(50,900)
Net cash used in investing activities	**(344,127)**	(370,212)
Financing activities		
Capital contribution to The Wawanesa Life Insurance Company	**–**	(15,000)
Net cash used in financing activities	**–**	(15,000)
Decrease in cash for the year	**(27,818)**	(5,675)
Bank indebtedness – beginning of year	**(12,212)**	(6,537)
Bank indebtedness – end of year	**$ (40,030)**	$ (12,212)

The accompanying notes constitute an integral part of the consolidated financial statements.

1 REPORTING RESPONSIBILITIES

The financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the policyholders as to whether the annual financial statements present fairly, in all material respects, the financial position and results of operations of the Company in accordance with Canadian generally accepted accounting principles.

The Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. He is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. He is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

Policy liabilities primarily include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unearned premiums and unpaid claims and adjustment expenses and deferred premium acquisition costs. The Appointed Actuary uses the work of the external and internal auditors in verifying data files for valuation purposes.

2 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the Insurance Companies Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the Superintendent), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements are summarized in note 4. These accounting policies conform, in all material respects, to Canadian GAAP except that one subsidiary is not consolidated, as described in note 4.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty include the assessment of other than temporary impairment of available-for-sale investments (note 5), the provision for unpaid claims (note 7) and the carrying value of future tax assets (note 9). Actual results could differ from those estimates.

3 CHANGE IN ACCOUNTING POLICIES

On January 1, 2009, the Company adopted the following amendments to accounting standards that were issued by The Canadian Institute of Chartered Accountants (CICA): Handbook Section 1506, "Accounting Changes", Section 3025, "Impaired Loans", Section 3064, "Goodwill and Intangible Assets", Section 3855, "Financial Instruments – Recognition and Measurement", and Section 3862, "Financial Instruments – Disclosures".

Accounting Changes

The Accounting Standards Board (AcSB) amended CICA Handbook Section 1506, "Accounting Changes", to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. As a result, the Company is no longer required to disclose the progress of its implementation of International Financial Reporting Standards (IFRS) in the notes to the 2009 and 2010 financial statements.

Impaired Loans

The AcSB amended CICA Handbook Section 3025, "Impaired Loans", to conform the definition of a loan to that in amended Section 3855 (see below) and to include held-to-maturity (HTM) investments within its scope.

Goodwill and Intangible Assets

Section 3064, "Goodwill and Intangible Assets", provides guidance on intangible assets, including the costing and capitalization criteria for internally developed intangible assets. Adopting this standard resulted in costs of $7,842,000 associated with the development of software being capitalized during the year with no corresponding amortization being taken as the projects are still under development.

Financial Instruments – Recognition and Measurement

The AcSB amended CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", as follows:

- Allows debt securities that are not quoted in an active market to be classified as loans and receivables.
- On adoption, permits eligible debt securities currently classified as available-for-sale (AFS) to be transferred to HTM or loans and receivables.
- Changes the impairment rules for HTM debt securities, whether quoted or not, from the fair value model to the incurred credit losses model.
- Requires the reversal of an impairment loss for AFS debt securities when recovery of fair value occurs subsequently and is based on objective evidence of an event occurring after the loss.

The Company has elected not to reclassify any of its debt securities at adoption of the amended standard. Impairment losses have been recognized on AFS debt securities in previous years. However, there were no cases in the current year, where those securities experienced a recovery of fair value based on objective evidence of an event occurring after the loss except for securities that had been sold during the year. As a result, the amendment requiring reversal of impairment losses for AFS debt securities has no impact on the 2009 financial statements.

Financial Instruments – Disclosures

The AcSB amended CICA Handbook Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The additional disclosure requirements about fair value measurements are intended to provide users of the financial statements with the ability to assess the reliability of an entity's fair value measurements, and have been incorporated into the Company's note disclosure for Investments and related net investment income (note 5).

4 SIGNIFICANT ACCOUNTING POLICIES

Basis of non-consolidation

These financial statements include consolidation of the wholly-owned subsidiary, Wawanesa General Insurance Company. The wholly-owned subsidiary, The Wawanesa Life Insurance Company, is not consolidated because management of the Company has determined that reporting of property and casualty and life insurance operations on a consolidated basis would not provide meaningful presentation. The Wawanesa Life Insurance Company is accounted for by the equity method. Its income is reflected in operations and the cost of the investment is adjusted to include post-acquisition income and is reduced by dividends.

Available-for-sale financial assets

Investments are classified as available-for-sale (AFS). AFS financial assets with quoted prices in an active market are carried at fair value on the balance sheet from the trade date. Fair values of AFS financial assets that do not have a quoted price in an active market are carried at cost, or at an amount below cost as determined by management, giving consideration to external data available. Changes in fair values are recorded, net of income taxes, in other comprehensive income (OCI) until the financial asset is disposed of or has become other than temporarily impaired. When the financial asset is disposed of or has been other than temporarily impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the statement of operations.

The Company assesses whether an AFS financial asset is other than temporarily impaired by evaluating whether there is a significant or prolonged decline in fair value and there is objective evidence that the investment is impaired and the impairment is other than temporary. When unrealized losses on AFS investments are determined to be other than temporary, the difference between the cost of the investment and its market value is recorded as realized losses on investments in the statements of operations and a corresponding adjustment is made to OCI.

If, subsequent to establishing a provision for impairment of AFS debt securities, a recovery of fair value occurs and such recovery is based on objective evidence of an event occurring after the loss, the previously recognized impairment loss is reversed in the statement of operations. Reversal of impairment losses is not permitted for AFS equity securities.

Loans and receivables

Receivables and Due from Facility Association are classified as loans and receivables. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Intangible assets

Intangible assets consist of certain acquired and internally developed software that has not yet been put into use and are recorded within Receivables on the balance sheet. Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost can be measured reliably. Research costs are recognized as an expense in the period incurred.

Intangible assets, once functional are amortized on a straight-line basis over their useful lives (3–10 years).

Deferred acquisition expenses

Commissions and premium taxes are deferred to the extent that they are considered recoverable and are expensed in the accounting periods in which related premiums are recognized as income. The ultimate recoverability of acquisition expenses is determined without regard to investment income.

Income taxes

Income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences in the carrying value of an asset or liability in the balance sheet and its value for tax purposes. Future income tax assets are recognized to the extent that realization is considered more likely than not.

Financial liabilities

Any such liabilities, other than unpaid claims, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Unpaid claims

The provision for unpaid claims is established by the case method as claims are reported. The estimates are regularly reviewed and updated as additional information on the estimated unpaid claims becomes known and any resulting adjustments are included in the statement of operations. A provision is also made for management's calculation of factors affecting future development of unpaid claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims. The unpaid claims are discounted as mandated by the Superintendent.

Salvage and subrogation

Salvage and subrogation recoveries on claims are recorded as a reduction of claims incurred on an accrual basis.

Employee future benefits

The Company maintains defined benefit plans for substantially all employees. The plans provide pensions based on length of service and final average earnings. In addition, the Company provides life insurance, dental and health benefit plans for retired employees.

The costs of these benefits related to current service are charged to operations in the period in which the services are rendered. The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, future cost escalation, retirement ages of employees and other actuarial factors). Past service costs, any net excess actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the market value of the plans assets, together with the transitional assets that resulted on the adoption of the new accounting standards, are amortized over the expected average remaining service lives of the employee group.

The excess of funding pension payments over pension expense is recorded as an asset. Non-pension benefits are not funded. The accumulated non-pension benefit expense is recorded as a liability.

The Company also provides defined contribution plans for certain employees. Contributions are expensed in the period that they are paid.

Foreign exchange translation

The Company translates the assets, liabilities, income and expenses of its United States branch and its United States subsidiary, both of which are self-sustaining operations, to Canadian dollars on the following basis:

- Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date.
- Income and expense items are translated using the average rate for the year.
- Gains and losses resulting from translation are deferred and shown as a separate component of accumulated other comprehensive income (loss).

Premiums earned

Premiums are taken into income on a pro-rata basis over the policy term.

Investment income

Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date. Gains and losses are determined and recorded as at the trade date, and are calculated on the basis of average cost.

The effective interest rate method is used to amortize premiums or discounts on the purchase of AFS bonds.

5 INVESTMENTS AND RELATED NET INVESTMENT INCOME

a) Fair value of investments

	2009	2008
	('000s)	
Bonds		
Canadian	**$ 2,400,829**	$ 2,033,875
Foreign	**794,868**	790,752
	3,195,697	2,824,627
Stocks		
Preferred		
Canadian	**33,396**	36,352
Common		
Canadian	**560,358**	417,574
Foreign	**550,054**	479,091
	1,143,808	933,017
Total investments	**$ 4,339,505**	$ 3,757,644

b) Bonds

AFS bonds are reported at fair value on the balance sheet. The fair value of bonds is determined using quoted market bid prices.

c) Stocks

AFS stocks are reported at fair value on the balance sheet. The fair value of stocks is determined using quoted market bid prices.

d) Fair value hierarchy

Beginning January 1, 2009, assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- ***Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.***

  For stocks held in pooled funds, the Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the pooled fund, trading volumes are used as an indicator for stocks, and the size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Assets measured at fair value and classified as Level 1 include stocks, and all federal government and federal government backed bonds. These bonds are classified as Level 1 as they are traded using quoted prices in an active market, which is reflected in their narrow bid/ask spread. Fair value is based on market price data obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- ***Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).***

  Level 2 inputs include quoted prices for assets in markets that are considered less active or inputs other than quoted prices that are observable for the instrument, such as interest rates, yield curves, volatility, prepayment speeds, credit risks and default rates where available. Assets measured at fair value and classified as Level 2 include inactive quoted stocks, provincial bonds, municipal bonds, corporate bonds, and asset-backed securities. Fair value is based on market price data obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- ***Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.***

  Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

The Company has categorized its assets measured at fair value into the three-level fair value hierarchy as summarized in the following table, based upon the priority of the inputs to the respective valuation technique as defined in the preceding section:

	Assets at fair value as at December 31, 2009		
	Level 1	Level 2	Total
	('000s)		
Cash equivalents	$ 5,872	$ –	$ 5,872
Bonds	1,129,563	2,066,134	3,195,697
Stocks	958,177	185,631	1,143,808
	$ 2,093,612	$ 2,251,765	$ 4,345,377

There are no investments that meet the Level 3 fair value measurement criteria. No investments were transferred between levels during the year.

e) Temporarily impaired AFS assets

The AFS assets disclosed in the following table exhibit evidence of impairment, however, the impairment loss has not been recognized in net income because it is considered temporary. AFS bonds and stocks have generally been identified as temporarily impaired if their cost as at December 31, 2009 was greater than their fair value, resulting in an unrealized loss. Unrealized losses may be due to interest rate fluctuations and/or depressed fair values in sectors which have experienced unusually strong negative market reactions. In connection with the Company's investment management practices and review of its investment holdings, it is believed that the contractual terms of bond investments will be met and/or the Company has the ability to hold these investments until recovery in value.

	2009		2008	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	('000s)		('000s)	
Bonds	**$ 1,640,880**	**$ 51,881**	$ 1,100,346	$ 132,394
Stocks	**461,724**	**17,823**	538,759	185,657
Total temporarily impaired financial assets	**$ 2,102,604**	**$ 69,704**	$ 1,639,105	$ 318,051

Included in realized gain (loss) on sale of AFS assets are write-downs of AFS financial assets due to other than temporary impairment of $1,772,000 (2008 – $39,706,000) for the year ended December 31, 2009.

Recovery of previously recognized write-downs for impaired AFS debt securities in the year was nil.

f) Maturity schedule of fixed-term investments

	As at December 31, 2009				
	One year or less	One to five years	Five to ten years	More than ten years	Total
			('000s)		
Bonds	**$ 62,191**	**$ 1,282,631**	**$ 956,192**	**$ 894,683**	**$ 3,195,697**

	As at December 31, 2008				
	One year or less	One to five years	Five to ten years	More than ten years	Total
			('000s)		
Bonds	$ 43,015	$ 1,088,446	$ 775,949	$ 917,217	$ 2,824,627

g) Realized gain (loss) on sale of available-for-sale assets

	As at December 31	
	2009	2008
	('000s)	
Bonds		
Canadian	**$ 64,390**	$ 6,110
Foreign	**(912)**	(27,266)
	63,478	(21,156)
Stocks		
Preferred		
Canadian	**(194)**	(660)
Common		
Canadian	**8,221**	16,885
Foreign	**(59,992)**	(43,089)
	(51,965)	(26,864)
Total realized gain (loss) on sale of available-for-sale assets	**$ 11,513**	$ (48,020)

h) Other net investment income

Other net investment income has the following components:

	2009	2008
	('000s)	
Interest income		
AFS bonds	**$ 138,031**	$ 128,700
Cash, cash equivalents and short-term securities	**1,279**	3,760
Dividends on AFS stocks	**18,884**	20,163
Other income	**16,521**	17,439
Investment expenses	**(3,722)**	(4,949)
Interest expense	**(258)**	(1,023)
Total other net investment income	**$ 170,735**	$ 164,090

i) Securities lending

The Company engages in securities lending to generate fee income. Certain securities from its portfolio are loaned to other institutions for short periods. An agreement between the Company and its custodian limits lending activity to approved creditors and specifies suitable types of collateral. The collateral pledged by the borrower exceeds the value of the assets on loan. At December 31, 2009, the Company had securities on loan with a fair value of $729,529,000 backed by collateral with a fair value of $753,740,000 (2008 – securities on loan with a fair value of $519,858,000 were backed by collateral with a fair value of $548,472,000).

6 INVESTMENT IN SUBSIDIARY

	2009	2008
	('000s)	
The Wawanesa Life Insurance Company, 100% owned	**$ 82,698**	$ 67,780

The Company recorded an increase to the investment balance and investment income in the amount of $5,720,000 to recognize previously unrecorded equity value attributed to the Company on the demutualization of The Wawanesa Life Insurance Company.

A summary of the significant balance sheet items for The Wawanesa Life Insurance Company is as follows:

	2009	2008
	('000s)	
Investments	**$ 534,814**	$ 476,684
Accrued investment income	**3,975**	4,208
Other assets	**8,145**	12,338
	$ 546,934	$ 493,230
Policy liabilities	**$ 430,883**	$ 386,246
Other liabilities	**4,064**	6,499
Total equity	**111,987**	100,485
	$ 546,934	$ 493,230

A summary of the significant operating results for The Wawanesa Life Insurance Company is as follows:

	2009	2008
	('000s)	
Premium income	**$ 88,556**	$ 88,045
Net investment income (loss)	**50,779**	(11,364)
	139,335	76,681
Benefits and expenses	**130,724**	72,734
Income before income taxes	**8,611**	3,947
Income taxes	**3,532**	349
Net income for the year	**5,079**	3,598
Other comprehensive income (loss) for the year	**6,423**	(9,802)
Total comprehensive income (loss) for the year	**$ 11,502**	$ (6,204)

Net income including transfers from participating policyholders of $4,199,000 (2008 – $4,878,000) and other comprehensive income (loss) of $4,999,000 (2008 – ($6,464,000)) were allocated to the Company and net income (loss) including transfers to the Company of $880,000 (2008 – ($1,280,000)) and other comprehensive income (loss) of $1,424,000 (2008 – ($3,338,000)) to the participating policyholders of The Wawanesa Life Insurance Company.

7 UNPAID CLAIMS

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses, expected salvage and subrogation and the related reinsurers' share of each requires an assessment of future claims development. This assessment takes into account the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Company's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the statement of operations for the period in which the change occurred. This estimate does reflect the time value of money as mandated by the Superintendent. In that respect, the Company determines the discount rate based upon the expected return of bonds held in the portfolio that approximates the cash flow requirements of the unpaid claim. The discount rate applied was 3.95% (2008 – 4.95%). To recognize the uncertainty inherent in determining unpaid claim amounts, the Company includes a Provision for Adverse Deviations (PFADs) relating to claim development, reinsurance recoveries and future investment income. The PFADs selected are all within the ranges recommended by the Canadian Institute of Actuaries.

The table below details the provision for unpaid claims by major line of business:

	2009	2008
	('000s)	
Line of business		
Automobile	**$ 1,557,210**	$ 1,442,960
Personal property	**306,004**	275,888
Commercial property	**107,710**	105,689
Other	**57,138**	46,311
Total gross unpaid claims	**2,028,062**	1,870,848
Reinsurers' portion	**59,670**	10,276
Net unpaid claims	**$ 1,968,392**	$ 1,860,572

Changes in unpaid claims:

	2009	2008
	('000s)	
Unpaid claims – beginning of year	**$ 1,870,848**	$ 1,678,460
Change in estimates for losses occurring in prior years	**(2,775)**	29,113
Provision for claims occurring in the current year	**1,626,347**	1,475,740
Paid on claims	**(1,466,358)**	(1,312,465)
Unpaid claims – end of year	**$ 2,028,062**	$ 1,870,848

Effects of discounting on unpaid claims:

	Undiscounted	Effects of present value	PFAD	Discounted
		('000s)		
2009				
Provision for unpaid claims	**$ 2,025,339**	**$ (173,853)**	**$ 176,576**	**$ 2,028,062**
Reinsurers' share of unpaid claims	**60,387**	**(4,109)**	**3,392**	**59,670**
	$ 1,964,952	**$ (169,744)**	**$ 173,184**	**$ 1,968,392**
2008				
Provision for unpaid claims	$ 1,909,352	$ (198,325)	$ 159,821	$ 1,870,848
Reinsurers' share of unpaid claims	10,581	(699)	394	10,276
	$ 1,898,771	$ (197,626)	$ 159,427	$ 1,860,572

8 EMPLOYEE FUTURE BENEFITS

Description of benefit plans

The Company has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its employees. Pension benefits are based on length of service and final average earnings and may be indexed at the discretion of the Board of Directors. Other retirement benefit plans are non-contributory health care and life insurance plans.

Total cash payments

Total cash payments for employee future benefits for 2009, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for unfunded other benefit plans, and cash contributed to defined contribution plans, was $18,644,000 (2008 – $14,535,000).

Defined benefit plans

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Canadian employees defined benefit pension plan for funding purposes was as of December 31, 2006. The next required valuation of the Canadian employees defined benefit pension plan will be as at December 31, 2009. The Canadian employees supplemental plan and the U.S. employees defined benefit pension plan require a valuation as at December 31 each and every year.

Defined benefit plan assets

The percentage of plan assets by major category measured at December 31 is:

	2009	2008
	%	%
Equity securities	**62**	58
Debt securities	**35**	36
Other	**3**	6
	100	100

Reconciliation of the funded status of the benefit plans to the amounts recorded in the financial statements

	Pension benefit plans		Other benefit plans	
	2009	2008	2009	2008
	('000s)		('000s)	
Market value of plan assets	**$ 293,634**	$ 245,843	**$ –**	$ –
Accrued benefit obligation	**(384,862)**	(323,621)	**(43,379)**	(31,259)
Funded status of plans – deficit	**(91,228)**	(77,778)	**(43,379)**	(31,259)
Balance of unamortized losses	**100,111**	89,586	**11,918**	2,358
Accrued benefit asset (liability)	**$ 8,883**	$ 11,808	**$ (31,461)**	$ (28,901)

The accrued benefit asset (liability) is included in the Company's balance sheet as follows:

	Pension benefit plans		Other benefit plans	
	2009	2008	2009	2008
	('000s)		('000s)	
Receivables	**$ 8,883**	$ 11,808	**$ –**	$ –
Other liabilities	**–**	–	**(31,461)**	(28,901)
	$ 8,883	$ 11,808	**$ (31,461)**	$ (28,901)

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	Pension benefit plans		Other benefit plans	
	2009	2008	2009	2008
	('000s)		('000s)	
Accrued benefit obligation	**$ (384,862)**	$ (323,621)	**$ (43,379)**	$ (31,259)
Fair value of plan assets	**293,634**	245,843	**–**	–
Funded status – plan deficit	**$ (91,228)**	$ (77,778)	**$ (43,379)**	$ (31,259)

Significant assumptions

The significant weighted average assumptions used in measuring the Company's pension and other obligations as at December 31 are:

	Pension benefit plans		Other benefit plans	
	2009	2008	2009	2008
Accrued benefit obligation:				
Discount rate	**4.45%**	4.10%	**6.90%**	7.52%
Rate of compensation increase	**4.85%**	4.20%	**–**	–
Benefit costs:				
Discount rate	**4.10%**	4.75%	**7.52%**	5.45%
Expected long-term rate of return on plan assets	**4.67%**	4.67%	**–**	–
Rate of compensation increase	**4.20%**	4.90%	**–**	–
Assumed health care cost trend rates*	**–**	–	**9.00%**	6.90%

* The projected health care cost trend rate will decline to the ultimate rate of 4.50% in 2030.

Benefits paid

Benefits paid were as follows:

	2009	2008
	('000s)	
Plans providing pension benefits	**$ 8,636**	$ 8,789
Plans providing other benefits	**751**	715
	$ 9,387	$ 9,504

Employee future benefit costs recognized in the year

The total cost recognized for the Company's defined benefit plans is as follows:

	2009	2008
	('000s)	
Plans providing pension benefits	**$ 19,099**	$ 13,468
Plans providing other benefits	**3,680**	4,632
	$ 22,779	$ 18,100

Defined contribution plans

The total cost recognized for the Company's defined contribution plans is as follows:

	2009	2008
	('000s)	
Plans providing pension benefits	**$ 670**	$ 639

During the year, the Company funded its pension plans in excess of statutory requirements.

9 INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2009	2008
	('000s)	
Earnings before income taxes	**$ 103,508**	$ 22,040
Combined statutory tax rate	**30.87%**	31.49%
Tax payable based on statutory tax rate	**31,953**	6,940
Effect of:		
Permanent differences	**(5,584)**	(4,400)
Legislative income tax act changes	**(4,906)**	173
Future income tax rate changes	**1,822**	944
Provision for tax filing positions	**–**	(2,482)
Realization of future tax asset previously not recorded	**(20,361)**	–
Capital taxes	**104**	138
Other	**5,091**	6,556
	$ 8,119	$ 7,869
Provision for income taxes		
Current	**$ (31,681)**	$ 12,502
Future	**39,800**	(4,633)
	$ 8,119	$ 7,869

In the normal course of business, the Company may take positions on its tax returns that taxing authorities could possibly challenge. The Company believes it has support for positions taken on its tax returns and has recorded a recoverable based on its best estimates of various non-capital loss carry-backs related to prior years.

Future income tax assets and liabilities consist of temporary differences between the accounting and tax basis of assets and liabilities as follows:

	2009	2008
	('000s)	
Future income tax assets (liabilities)		
Invested assets	**$ (14,365)**	$ 28,258
Policy liabilities and other policy reserves	**21,135**	25,468
Employee future benefits	**5,842**	5,017
Other assets	**2,690**	3,369
	$ 15,302	$ 62,112

The Company expects that the future income tax assets will be realized in the normal course of operations.

Income taxes included in OCI

Other comprehensive income included on the statement of comprehensive income (loss) is presented net of income taxes. The following income tax amounts are included in each component of other comprehensive income for the year ended December 31:

	2009	2008
	('000s)	
Unrealized gains (losses) on AFS assets	**$ 103,438**	$ (140,300)
Reclassifications to net income for AFS assets	**(4,637)**	12,128
Unrealized gain (loss) on translation of financial statement operations with US dollar functional currency to Canadian dollar reporting currency	**(10,401)**	11,077
Other comprehensive income (loss) on equity investment	**2,242**	(2,575)
Total income taxes provision (recovery) included in OCI	**$ 90,642**	$ (119,670)

10 REINSURANCE

The Company had reinsurance in force during the year to limit its liability as follows:

- In the event of a series of claims arising out of a single occurrence the Company had obtained reinsurance with an upper amount of $750,000,000, which limited its liability to $30,000,000 in the event of a series of claims arising out of a single occurrence.
- Aggregate protection up to $75,000,000 after satisfaction of a $100,000,000 deductible. This deductible is based on an accumulation of all losses subject to the treaty that exceed $1,000,000 and are less than $30,000,000.

Certain figures in these financial statements are shown net of the following amounts related to reinsurance ceded to other companies.

	2009	2008
	('000s)	
Net premiums ceded on an earned basis	**$ 43,265**	$ 32,357
Net claims and adjustment expenses ceded	**65,029**	4,165

11 CONTINGENT LIABILITIES

The Company has settled some claims by purchasing annuities (structured settlements) from life insurers. The Company guarantees the future annuity payments and thus is exposed to a credit risk to the extent any of the life insurers fail to fulfill their obligations. The risk is managed by acquiring annuities from several Canadian life insurers with proven financial stability. To December 31, 2009, no information has come to the Company's attention to suggest any financial weakness in life insurers from which it has purchased annuities. Consequently, no provision for credit risk is required. The credit risk exposure is estimated at the original purchase price of the annuities of $76,232,000 (2008 – $72,983,000). The net risk to the Company is the credit risk related to the life insurance companies that the annuities are purchased from. This risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. No defaults have occurred, and the Company considers the possibility of default to be remote.

12 RELATED PARTY TRANSACTIONS

The Company has the following transactions with its wholly-owned subsidiary, The Wawanesa Life Insurance Company:

- The Company recovers the cost of expenses paid on behalf of or shared with the subsidiary totalling $12,197,000 (2008 – $11,593,000).
- The Company pays commissions on behalf of its brokers to investment accounts maintained by the subsidiary of $12,117,000 (2008 – $11,275,000).
- The Company purchases group employee benefits from the subsidiary at a cost of $5,561,000 (2008 – $5,121,000).

Balances between the Company and its subsidiary are settled on a regular basis and the outstanding amounts are immaterial at December 31, 2009 and 2008.

13 PREMIUM RATE REGULATION

Substantially all of the Company's automobile business and its United States property business are subject to rate regulation by various provincial and state regulators. This business comprises approximately 65% (2008 – 65%) of gross premiums written.

Regulation of premium rates is based on the cost of providing insurance coverage which recognizes claims and other costs including anticipated profit margins. Insurance premiums can be subject to mandatory rate rollbacks and mandatory rate assessments imposed by provincial or state legislation or regulation. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior periods. In addition, the Company is required, under the legislation of certain jurisdictions, to participate in risk sharing pools which may impact positively or negatively upon underwriting results. The impact of the participation is immaterial to the overall financial statements.

At various points throughout the year, the Company will have applications pending with certain regulators for automobile premium rate changes. All are in the normal course of business. The Company is not aware of any proposed or pending rate rollbacks related to prior years.

14 CAPITAL MANAGEMENT

The Company's capital management objective is to ensure that the Company is capitalized in a manner which provides a strong financial position for its policyholders and at the same time, exceed the regulatory capital requirements. Annually, the Board of Directors review available capital as defined for regulatory purposes to ensure it is meeting regulatory requirements. Management performs a similar review on a quarterly basis.

The capital structure of the Company is comprised solely of equity.

The Company is a Canadian property and casualty insurance company. Accordingly it is subject to regulation by the Office of the Superintendent of Financial Institutions (OSFI). OSFI requires Canadian property and casualty insurance companies to maintain a level of capital sufficient to achieve a target of 150% based on a Minimum Capital Test (MCT) ratio. As at December 31, 2009, the Company's MCT was in compliance with the minimum capital required.

The Wawanesa Life Insurance Company, a wholly-owned subsidiary of the Company (note 6), is a Canadian life insurance company. As a Canadian life insurance company, it is also subject to regulation by OSFI and is required to meet the Minimum Continuing Capital and Surplus Requirements (MCCSR) as established by OSFI. OSFI expects life insurance companies to maintain a minimum capital ratio of 150%. As at December 31, 2009 The Wawanesa Life Insurance Company's minimum capital ratio was in compliance with the minimum capital required.

The Company has operations based in the United States. The Company has a branch, as well as a wholly-owned subsidiary, Wawanesa General Insurance Company, which are regulated by the California Department of Insurance and subject to the capital requirements as measured by the National Association of Insurance Commissioners (NAIC). The NAIC utilizes a risk based capital formula to assess compliance with its capital requirements. The California Department of Insurance requires that the Total Adjusted Capital of American property and casualty insurance companies not fall below 200% of the Authorized Control Level as measured by NAIC. As at December 31, 2009, the branch and the wholly-owned subsidiary were in compliance with the minimum capital required.

15 FINANCIAL RISK MANAGEMENT

The Board of Directors ensures that management has put appropriate risk management processes in place. Through the Audit Committee, the Board oversees such risk management procedures and controls. Management provides updates to the Audit Committee on a quarterly basis with respect to risk management.

The most significant risks that the Company must manage with respect to unpaid claims and other financial instruments are product and pricing, underwriting and liability, catastrophe and reinsurance, credit, market and liquidity risks.

Product and pricing risk

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. The Company prices its products by taking into account several factors including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate. For property insurance in California and automobile insurance in all regions, pricing must be submitted to each jurisdiction's regulator.

In some instances, the Company may choose to adjust pricing below what it feels is acceptable in order to maintain a competitive position. However, the Company attempts to maintain a pricing level that ensures it is able to produce an acceptable return.

Underwriting and liability risk

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the retention and transfer of risks, the reserving and adjudication of claims, and the management of contractual and non-contractual product options.

The Company has specific underwriting guidelines for declining to issue, terminating, or refusing to renew a contract for each line of business in all jurisdictions. The underwriting guidelines for risk eligibility are developed in cooperation between corporate underwriting staff and the specific regional underwriting department. These guidelines must be developed in consideration of jurisdictional underwriting rule restrictions, particularly for automobile insurance. The Company continually reviews its underwriting rules and complies with evolving regulation on restricted criteria. The Company considers stability, fairness and the expectations of its existing and potential policyholders when making deliberate changes to its underwriting rules.

The Company establishes a line guide that is utilized to ensure that the limits of insurance for a particular risk do not exceed the Company's net retention or maximum written limits and the proper approval authority for the risk is obtained. Net retention is the maximum amount of insurance that the Company will retain on a single exposure. Coverage in excess of its net retention is reinsured up to its maximum written limits.

Regular audits of the Company's underwriting guidelines and workflow process are conducted by branch and corporate management and more formally by the Company's internal audit department. Internal audit's objectives are to review the internal controls and workflows in the claims, underwriting and accounting areas. This is to ensure the areas reviewed are adequately controlled in accordance with Company policy. The findings in these audits are shared with senior management and the applicable branch management and appropriate actions are taken.

Catastrophe and reinsurance risk

The Company has in place a comprehensive reinsurance program designed to protect the organization from the impact of catastrophe risk. This program provides reinsurance coverage in the event of a covered loss up to $750,000,000 subject to an appropriate deductible. In determining the protection purchased, the Company analyzes its exposure to these risks (primarily earthquake and wind/hail) on an annual basis using state-of-the-art modelling provided through RMS. To ensure that the reinsurance provided is collectible, the Company limits participation to reinsurers that are A rated or better based on A. M. Best or Standard & Poor's rating.

The Board of Directors has approved and annually reviews the Management of Earthquake Risk policy which addresses this risk in the context of the Company. Management has provided to the Board of Directors a Reinsurance policy which deals with the types of reinsurance programs placed and the practices management follows in managing and placing.

At December 31, 2009, the Company had net outstanding balances from reinsurers of $56,401,000 ($2008 – $9,606,000). All amounts are with reinsurers with a credit rating of A or higher.

Credit risk

Credit risk is the possibility of financial loss, resulting from the failure of a debtor to honour its obligation to the Company.

The following table summarizes the Company's maximum exposure to credit risk on the balance sheet. The maximum credit exposure is the carrying value of the asset net of any allowances for loss.

	2009	2008
	('000s)	
Bonds		
Federal	**$ 1,129,563**	$ 944,214
Provincial	**423,988**	393,985
Municipal	**15,886**	10,308
Corporate rated A or higher	**1,365,516**	1,297,742
Corporate rated below A	**260,744**	178,378
	3,195,697	2,824,627
Receivables	**597,420**	487,094
Due from Facility Association	**12,148**	10,488
Maximum credit risk exposure on the balance sheet	**$ 3,805,265**	$ 3,322,209

The Company is exposed to credit risk principally through its investment in fixed income securities and balances receivable from policyholders, brokers, and reinsurers.

The Company's Investment Policy Statement, which is approved by the Investment Committee of the Board of Directors, limits the credit risk of the bond portfolio by requiring sound asset diversification, restricting the amount exposed to any one issuer and requiring a portfolio of high quality. The portfolio is monitored regularly and reviewed quarterly with the Investment Committee.

As at December 31, 2009, 91.84% (2008 – 93.68%) of the Company's investments in fixed income securities were assigned a rating of A or better by either Dominion Bond Rating Service or Moody's Investor Services.

The Company monitors its exposure to brokers and has procedures to ensure that it works only with brokers who maintain their account on a current basis.

There are no material financial assets that are past due as at December 31, 2009.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, equity risk and currency risk.

(i) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on fixed income securities. Changes in interest rates will affect the fair value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. Because investments are classified as AFS, these increases and decreases in fixed income securities will result in corresponding increases and decreases in other comprehensive income until the securities are sold and any gain or loss is realized or the securities are written down to reflect an other than temporary decline in value. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

Changes in interest rates also have an impact on the rate used to discount unpaid claims. Consequently, changes in interest rates will affect the carrying value of the unpaid claims. During periods of rising interest rates, the carrying value of unpaid claims will generally decrease and net income will increase. During periods of declining interest rates the opposite is true.

The approximate impact of an increase of 100 basis points in the interest yields would increase the net income of the Company by $42,418,000 (2008 – $38,762,000) and decrease the other comprehensive income of the Company by $195,087,000 (2008 – $173,193,000). The approximate impact of a decrease of 100 basis points in the interest yields would decrease the net income of the Company by $44,833,000 (2008 – $37,364,000) and increase other comprehensive income of the Company by $194,019,000 (2008 – $170,380,000).

The Company's Investment Policy Statement outlines the duration of each fund to be maintained within a specified range. Interest rate risk is regularly monitored by management and compliance with the Investment Policy Statement is reported to the Investment Committee on a quarterly basis.

(ii) Equity risk

Equity market fluctuation risk is where fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity securities and fixed income securities held.

The Company's equity portfolios are managed by independent professional investment managers. The Company has investment policies regarding diversification by geographic sector and capitalization to limit and monitor its individual issuers' equity exposure. Aggregate exposure to single issuers and total equity positions are monitored on a quarterly basis.

(iii) Currency risk

Currency risk represents the risk that the Company incurs losses due to exposure to foreign currency fluctuations. Changes in the U.S. to Canadian dollar foreign currency exchange rate impact the fair value of securities denominated in U.S. dollars and the fair value of other financial instruments held by the U.S. operations. The U.S. operations hold their investments in U.S. dollar denominated securities and the Canadian operations hold securities denominated in Canadian dollars. Limits are set by the Company's Investment Policy Statement as to the amount of securities held that are denominated in foreign currencies. The Company's investment policy does not allow hedging of foreign currency positions. Compliance with the limits set by the Company's Investment Policy Statement is reported to the Investment Committee on a quarterly basis.

The approximate impact of an increase of 10% in the U.S. dollar against the Canadian dollar would increase the net income of the Company by $971,000 (2008 – $496,000) and increase the other comprehensive income of the Company by $49,967,000 (2008 – $92,520,000). The approximate impact of a decrease of 10% in the U.S. dollar against the Canadian dollar would decrease the net income of the Company by $971,000 (2008 – $496,000) and decrease the other comprehensive income of the Company by $49,967,000 (2008 – $92,520,000).

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial obligations without raising funds at unfavourable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

Liquidity guidelines have been established by the Investment Committee and are set out in the Company's Investment Policy Statement. The guidelines require that a portion of the investment portfolio be in readily marketable securities. Liquidity risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

The following table summarizes the undiscounted cash flows of financial assets and liabilities by contractual or expected maturity.

	As at December 31, 2009				
	One year or less	One to two years	Two to five years	More than five years	Total
	('000s)				
Financial Assets					
Bonds	**$ 3,195,697**	**$ –**	**$ –**	**$ –**	**$ 3,195,697**
Stocks – preferred	**33,396**	**–**	**–**	**–**	**33,396**
Stocks – common	**1,110,412**	**–**	**–**	**–**	**1,110,412**
Accrued investment income	**24,702**	**–**	**–**	**–**	**24,702**
Receivables	**489,388**	**4,899**	**14,174**	**17,921**	**526,382**
	$ 4,853,595	**$ 4,899**	**$ 14,174**	**$ 17,921**	**$ 4,890,589**
Financial Liabilities					
Bank indebtedness	**$ 40,030**	**$ –**	**$ –**	**$ –**	**$ 40,030**
Unpaid claims	**690,425**	**228,211**	**593,845**	**452,471**	**1,964,952**
Other financial liabilities	**187,610**	**–**	**–**	**–**	**187,610**
	$ 918,065	**$ 228,211**	**$ 593,845**	**$ 452,471**	**$ 2,192,592**

	As at December 31, 2008				
	One year or less	One to two years	Two to five years	More than five years	Total
	('000s)				
Financial Assets					
Bonds	$ 2,824,627	$ –	$ –	$ –	$ 2,824,627
Stocks – preferred	36,352	–	–	–	36,352
Stocks – common	896,665	–	–	–	896,665
Accrued investment income	25,125	–	–	–	25,125
Receivables	538,453	1,822	5,001	5,836	551,112
	$ 4,321,222	$ 1,822	$ 5,001	$ 5,836	$ 4,333,881
Financial Liabilities					
Bank indebtedness	$ 12,212	$ –	$ –	$ –	$ 12,212
Unpaid claims	670,017	221,418	571,989	435,347	1,898,771
Other financial liabilities	113,558	–	–	–	113,558
	$ 795,787	$ 221,418	$ 571,989	$ 435,347	$ 2,024,541

16 FUTURE ACCOUNTING CHANGES

In January 2009, the CICA issued three new accounting standards: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests".

Section 1582 will replace Section 1581, "Business Combinations", and will improve the information reported by an entity about a business combination and its effects. As permitted by the transitional provisions of the standard, the Company will adopt this Section for business combinations with an acquisition date on or after January 1, 2010. The impact of the adoption of this standard cannot be reasonably estimated at this time.

Section 1601 together with Section 1602 will replace Section 1600, "Consolidated Financial Statements". These Sections will establish standards for the preparation of consolidated financial statements and the accounting for a non-controlling interest subsequent to a business combination. The Company will adopt these Sections for its consolidated financial statements beginning January 1, 2010. This is in accordance with the transitional provisions of these Sections which require their adoption when an entity adopts Section 1582. The Company has evaluated the impact of the adoption of these sections on its consolidated financial statements and has determined that there will be no material impact.

17 COMPARATIVE FIGURES

Certain of the prior year's figures have been restated for comparative purposes.

THE WAWANESA LIFE INSURANCE COMPANY
AUDITORS' REPORT

Incorporated July 7, 1960

Head Office
Wawanesa, Manitoba

Executive Office
400–200 Main Street
Winnipeg, Manitoba

OFFICERS AND MANAGEMENT

Corporate

K. E. McCrea, CA, FLMI
President and Chief Executive Officer

M. K. Nemeth, CA, FLMI, GBA
Vice President and Chief Operating Officer

G. N. Bass, Q.C.
Vice President, General Counsel and Secretary

I. R. MacDonald, FSA, FCIA
Vice President and Actuary

C. R. Loeppky, BScCS
Vice President, Information Services

T. L. Nelson, FLMI/M, CHRP, CIP
Vice President, Human Resources

E. Elvebo, CA
Manager, Corporate Reporting

P. M. Horncastle, CGA
Controller

P. R. Mulaire, CMA, FCIP, CIA
Manager, Internal Audit

K. J. Richtik, FSA, FCIA
Manager, Actuarial Financial Reporting

Insurance Operations

G. G. Sadler, CLU, ChFC, RHU
Director, Individual Sales and Marketing

R. A. Maharajh, CMA, FSA, FCIA
Group Actuary

M. M. Nolin, ALHC
Manager, Group Claims

D. M. Smook
Manager, National Group Sales and Marketing

D. I. Verwey
Manager, Group Administration and Contracts

A. E. Waller, MBA, CFP, ChFC, CLU, FALU
Manager, Individual Life Administration

Medical Director

Dr. R. B. Boyd, MD

TO THE POLICYHOLDERS AND SHAREHOLDER OF THE WAWANESA LIFE INSURANCE COMPANY

We have audited the balance sheet of **The Wawanesa Life Insurance Company** and the statement of segregated funds net assets as at December 31, 2009 and the statements of operations, comprehensive income, equity, cash flows and changes in segregated funds net assets for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company and of its segregated funds as at December 31, 2009 and the results of its operations, its cash flows and the changes in net assets of the segregated funds for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
February 23, 2010, Winnipeg, Manitoba

PRICEWATERHOUSECOOPERS

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

THE WAWANESA LIFE INSURANCE COMPANY

APPOINTED ACTUARY'S REPORT

TO THE POLICYHOLDERS AND SHAREHOLDER OF THE WAWANESA LIFE INSURANCE COMPANY

I have valued the policy liabilities of The Wawanesa Life Insurance Company for its balance sheet at December 31, 2009 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the result of the valuation.

Ian R. MacDonald
Fellow, Canadian Institute of Actuaries
February 23, 2010, Winnipeg, Manitoba

BRANCH OFFICES

Atlantic
1010 St. George Boulevard
Moncton, New Brunswick
S. B. Brydges, CFP
Regional Life Manager

Ontario
100–4110 Yonge Street
Toronto, Ontario
R. W. Bridle
Regional Life Manager
B. I. Lang, RHU
Regional Life Manager
R. J. Rowe, GBA
Regional Group Manager

Western Manitoba
208–740 Rosser Avenue
Brandon, Manitoba
G. L. C. Goymer, CFP, ChFC, CLU, RHU
Regional Life Manager

Eastern Manitoba and NW Ontario
700–200 Main Street
Winnipeg, Manitoba
T. A. McDowell
Regional Group Manager

Saskatchewan
1418–8th Street East
Saskatoon, Saskatchewan
205, 2631–28th Avenue
Regina, Saskatchewan
L. P. J. Addison
Regional Life Manager

Edmonton
100, 8657–51st Avenue
Edmonton, Alberta
P. T. Fawcett, CFP, CLU, RHU, EPC
Regional Life Manager
S. Lambert
Regional Group Manager

Calgary
600, 708–11th Avenue S.W.
Calgary, Alberta
B. A. Reid Galarnyk
Regional Life Manager

British Columbia
310–1985 West Broadway
Vancouver, British Columbia
S. F. Engmann
Regional Life Manager
T. C. Hickmore, GBA
Regional Group Manager
J. R. Sumner, CFP
Regional Group Manager
B. R. Wyne, MBA
Regional Group Manager

THE WAWANESA LIFE INSURANCE COMPANY
BALANCE SHEET

	As at December 31	
	2009	2008
	('000s)	
Assets		
Cash	**$ 3,715**	$ 7,047
Investments (note 5)	**534,814**	476,684
Outstanding premiums	**615**	624
Investment income due and accrued	**3,975**	4,208
Income taxes recoverable	**–**	1,875
Future income taxes (note 9)	**213**	–
Furniture and equipment – at cost, less accumulated amortization	**590**	–
Other assets	**3,012**	2,792
Total general fund assets	**$ 546,934**	$ 493,230
Segregated funds net assets (note 10)	**$ 139,896**	$ 103,410
Liabilities		
Policy liabilities (note 7)	**$ 430,883**	$ 386,246
Other liabilities	**2,978**	3,614
Income taxes payable	**1,086**	–
Future income taxes (note 9)	**–**	2,885
Total general fund liabilities	**434,947**	392,745
Total equity	**111,987**	100,485
Total general fund liabilities and equity	**$ 546,934**	$ 493,230
Segregated fund contract liabilities	**$ 139,896**	$ 103,410

Approved by the Board of Directors

K. E. McCrea Director D. C. Crewson Director

The accompanying notes constitute an integral part of the financial statements.

THE WAWANESA LIFE INSURANCE COMPANY
STATEMENT OF OPERATIONS

	For the year ended December 31	
	2009	2008
	('000s)	
Income		
Premiums		
Life insurance	**$ 42,030**	$ 40,059
Health insurance	**19,124**	20,429
Annuities	**27,402**	27,557
	88,556	88,045
Net investment income		
Change in fair value of held-for-trading assets	**26,863**	(34,796)
Realized gains (losses) on sales of available-for-sale assets	**1,252**	(448)
Other net investment income (note 5)	**22,664**	23,880
	139,335	76,681
Benefits and expenses		
Amounts paid or credited to policyholders and their beneficiaries		
Death, disability and health benefits	**25,185**	25,153
Annuity payments	**3,571**	3,900
Maturities and surrenders	**27,010**	22,051
Dividends and interest	**4,364**	4,932
Increase (decrease) in actuarial liabilities	**44,884**	(8,472)
	105,014	47,564
Commissions	**9,040**	9,590
Operating expenses	**14,887**	13,699
Taxes and licences	**1,783**	1,881
	130,724	72,734
Income before income taxes	**8,611**	3,947
Income taxes (note 9)		
Current	**6,630**	1,705
Future	**(3,098)**	(1,356)
	3,532	349
Net income for the year	**$ 5,079**	$ 3,598

The accompanying notes constitute an integral part of the financial statements.

THE WAWANESA LIFE INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the year ended December 31			
	2009		2008	
	('000s)			
Net income for the year	**$**	**5,079**	$	3,598
Other comprehensive income (loss) – net of taxes (note 9)				
Change in unrealized gains (loss) on available-for-sale assets		**7,288**		(10,149)
Reclassifications to net income for available-for-sale assets		**(865)**		347
Total other comprehensive income (loss)		**6,423**		(9,802)
Total comprehensive income (loss)	**$**	**11,502**	$	(6,204)
Allocation of net income (loss)				
Participating policyholders' account	**$**	**1,347**	$	(1,064)
Shareholder account		**3,732**		4,662
Allocation of other comprehensive income (loss)				
Participating policyholders' account		**1,424**		(3,338)
Shareholder account		**4,999**		(6,464)
	$	**11,502**	$	(6,204)

The accompanying notes constitute an integral part of the financial statements.

THE WAWANESA LIFE INSURANCE COMPANY

STATEMENT OF EQUITY

	For the year ended December 31				
	2009				2008
	Participating policyholders	Shareholder	Total		Total
	('000s)				
Share capital (note 11)	**$ –**	**$ 26,500**	**$ 26,500**	$	26,500
Policyholders' account/retained earnings					
Balance – beginning of year	**28,202**	**48,520**	**76,722**		73,124
Net income	**1,347**	**3,732**	**5,079**		3,598
Transfer (note 12)	**(467)**	**467**	**–**		–
Balance – end of year	**29,082**	**52,719**	**81,801**		76,722
Accumulated other comprehensive income (loss) – net of taxes (note 9)					
Balance – beginning of year	**(1,217)**	**(1,520)**	**(2,737)**		7,065
Total other comprehensive income (loss)	**1,424**	**4,999**	**6,423**		(9,802)
Balance – end of year	**207**	**3,479**	**3,686**		(2,737)
Total retained earnings and accumulated other comprehensive income	**29,289**	**56,198**	**85,487**		73,985
Total equity	**$ 29,289**	**$ 82,698**	**$ 111,987**	$	100,485
Accumulated other comprehensive income (loss) – net of taxes (note 9)					
Balance – end of year consists of:					
Net unrealized gains (loss) on available-for-sale assets	**$ 207**	**$ 3,479**	**$ 3,686**	$	(2,737)
Balance – end of year	**$ 207**	**$ 3,479**	**$ 3,686**	$	(2,737)

The accompanying notes constitute an integral part of the financial statements.

THE WAWANESA LIFE INSURANCE COMPANY
STATEMENT OF CASH FLOWS

	For the year ended December 31	
	2009	2008
	('000s)	
Cash provided by (used in)		
Operating activities		
Receipts		
Premium and annuity considerations	**$ 86,368**	$ 85,577
Investment income received	**22,008**	20,455
Other revenue	**2,198**	2,370
	110,574	108,402
Payments		
Benefits and annuity payments	**45,723**	45,938
Net transfers to segregated funds	**10,301**	5,382
Insurance expenses and taxes	**32,877**	25,360
Dividends to policyholders	**4,364**	4,932
Change in other assets and liabilities	**210**	(160)
	93,475	81,452
Cash provided by operating activities	**17,099**	26,950
Investing activities		
Purchases, bonds and stocks	**(238,242)**	(286,417)
Disposals, bonds and stocks	**215,327**	245,123
Advances, mortgage and policy loans	**(5,965)**	(12,923)
Repayments, mortgage and policy loans	**9,058**	12,736
Furniture and equipment, net	**(609)**	–
Cash used in investing activities	**(20,431)**	(41,481)
Financing activities		
Proceeds from issuance of share capital (note 11)	**–**	15,000
Cash provided by financing activities	**–**	15,000
(Decrease) increase in cash for the year	**(3,332)**	469
Cash – beginning of year	**7,047**	6,578
Cash – end of year	**$ 3,715**	$ 7,047
Income taxes paid	**$ 6,549**	$ 1,366

The accompanying notes constitute an integral part of the financial statements.

THE WAWANESA LIFE INSURANCE COMPANY

STATEMENT OF CHANGES IN SEGREGATED FUNDS NET ASSETS

	For the year ended December 31	
	2009	2008
	('000s)	
Additions to segregated funds		
Proceeds from sale of units	**$ 22,271**	$ 20,963
Unrealized appreciation (depreciation) of investments	**24,909**	(46,845)
Net realized (loss) gains	**(221)**	3,326
Investment income	**3,465**	3,409
	50,424	(19,147)
Deductions from segregated funds		
Payments on redemption of units	**11,971**	15,583
Management fees	**1,967**	2,181
	13,938	17,764
Net increase (decrease) to segregated funds for the year	**36,486**	(36,911)
Segregated funds net assets – beginning of year	**103,410**	140,321
Segregated funds net assets – end of year	**$ 139,896**	$ 103,410

STATEMENT OF SEGREGATED FUNDS NET ASSETS

	As at December 31	
	2009	2008
	('000s)	
Assets		
Institutional Pooled Fund units	**$ 140,172**	$ 103,706
Liabilities		
Amounts due to The Wawanesa Life Insurance Company	**44**	31
Amounts due to the investment manager for units purchased	**232**	265
Net assets attributed to segregated funds policyholders	**$ 139,896**	$ 103,410

The accompanying notes constitute an integral part of the financial statements.

1 REPORTING RESPONSIBILITIES

The financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the policyholders and shareholder as to whether the annual financial statements present fairly, in all material respects, the financial position and results of operations of the Company in accordance with Canadian generally accepted accounting principles.

The Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. He is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. He is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

The Appointed Actuary uses the work of the external and internal auditors in verifying data files for valuation purposes.

2 BASIS OF PRESENTATION

The Wawanesa Life Insurance Company (referred to as the Company) is a wholly-owned subsidiary of The Wawanesa Mutual Insurance Company. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and directives of the Office of the Superintendent of Financial Institutions Canada (OSFI or the Superintendent). None of the accounting requirements of OSFI are exceptions to Canadian GAAP. The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies conform, in all material respects, to Canadian GAAP.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty include the fair value of investments and the assessment of other than temporary impairment of available-for-sale (AFS) investments (note 5), the provision for policy liabilities (note 7) and the carrying value of future tax liabilities (note 9). Actual results could differ from those estimates. Changes in estimates are recorded in the accounting period in which they are determined.

3 CHANGE IN ACCOUNTING POLICIES

On January 1, 2009, the Company adopted the following amendments to accounting standards that were issued by The Canadian Institute of Chartered Accountants (CICA): Handbook Section 1506, "Accounting Changes", Section 3025, "Impaired Loans", Section 3855, "Financial Instruments – Recognition and Measurement", and Section 3862, "Financial Instruments – Disclosures".

Accounting Changes

The Accounting Standards Board (AcSB) amended CICA Handbook Section 1506, "Accounting Changes", to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. As a result, the Company is no longer required to disclose the progress of its implementation of International Financial Reporting Standards (IFRS) in the notes to the 2009 and 2010 financial statements.

Impaired Loans

The AcSB amended CICA Handbook Section 3025, "Impaired Loans", to conform the definition of a loan to that in amended Section 3855 (see below) and to include held-to-maturity (HTM) investments within its scope.

Financial Instruments – Recognition and Measurement

The AcSB amended CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", as follows:

- Allows debt securities that are not quoted in an active market to be classified as loans and receivables.
- On adoption, permits eligible debt securities currently classified as AFS to be transferred to HTM or loans and receivables.
- Changes the impairment rules for HTM debt securities, whether quoted or not, from the fair value model to the incurred credit losses model.
- Requires the reversal of an impairment loss for AFS debt securities when recovery of fair value occurs subsequently and is based on objective evidence of an event occurring after the loss.

The Company has elected not to reclassify any of its debt securities at adoption of the amended standard. Impairment losses for AFS debt securities from previous years were nil, thus the amendment requiring reversal of impairment losses for AFS debt securities has no impact on the 2009 financial statements.

Financial Instruments – Disclosures

The AcSB amended CICA Handbook Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurements of financial instruments. The disclosures required are intended to provide users of the financial statements with the ability to assess the reliability of an entity's fair value measurements, and have been incorporated into the Company's note disclosure for investments and investment income (note 5).

4 SIGNIFICANT ACCOUNTING POLICIES

Investments

Bonds and stocks are designated as AFS or HFT. The Company uses trade date accounting for purchases and sales of these investments.

AFS financial assets

AFS financial assets with quoted prices in an active market are carried at fair value on the balance sheet from the trade date. Fair values of AFS financial assets that do not have a quoted price in an active market are carried at cost, or at an amount below cost as determined by management, giving consideration to external data available. Changes in fair values are recorded, net of income taxes, in other comprehensive income (OCI) until the financial asset is disposed of or has become other than temporarily impaired. When the financial asset is disposed of or has been other than temporarily impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the statement of operations.

A provision for impairment of AFS financial assets is established when there is objective evidence that the investment is impaired and the impairment is other than temporary. The Company assesses whether an AFS financial asset is other than temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as fundamental credit problems of the issuer such that it is probable that the Company will not be able to receive or collect all amounts due according to the contractual terms of the investment.

If the impairment is caused, in whole or in part, by credit spreads widening, the change in credit spreads is deemed to be "interest related". "Interest related" includes a declining value due to increases in the risk free interest rate and general credit spread widening. Credit spreads can widen or contract for a variety of reasons, including supply/demand imbalances in the marketplace or perceived higher/lower risk of an entire sector. Such impairments are deemed to be temporary.

If subsequent to establishing a provision for impairment of AFS debt securities, a recovery of fair value occurs and such recovery is based on objective evidence of an event occurring after the loss, the previously recognized impairment loss is reversed in the statement of operations. Reversal of impairment losses is not permitted for AFS equity securities.

HFT financial assets

HFT financial assets are carried at fair value on the balance sheet from the trade date. Realized gains and losses and unrealized changes in fair values are recorded in net income. HFT financial assets are purchased or incurred with the intention of generating profits in the near term or are designated as such by the Company. The Company has designated all bonds and stocks that support the policy liabilities as HFT. Fair values of HFT financial assets that do not have a quoted price in an active market are carried at cost, or an amount below cost as determined by management, giving consideration to external data available.

Mortgages and policy loans

Financial assets classified as loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment losses, if any. Policy loans are not subject to impairment losses because they are fully secured by the policy values on which the loans are made.

Segregated funds

Segregated funds are investment options available to annuity policyholders in which the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Company, and the annuity policyholder has no direct access to the specific assets, the contractual arrangements are such that the annuity policyholder bears the risk and rewards of the fund's investment performance. In addition, certain annuity policies have minimum maturity value and death benefit guarantees from the Company. Payments for such guarantees are included in amounts paid or credited to policyholders and their beneficiaries in the statement of operations. Additional liabilities, if any, associated with these minimum guarantees are recorded in actuarial liabilities. The Company derives fee income from segregated funds, which is included in annuity premiums on the statement of operations. Policyholder transfers between general funds and segregated funds are included in maturities and surrenders on the statement of operations. Investments held in segregated funds are carried at fair value.

Furniture and equipment

Furniture and equipment are carried at cost less accumulated amortization. Amortization is computed using the declining balance method at a rate of 20%.

Financial liabilities

Any such liabilities, other than actuarial liabilities, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Actuarial liabilities are described in notes 1 and 7.

Income taxes

Income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences in the carrying value of an asset or liability in the balance sheet and its value for tax purposes. Future income tax assets are recognized to the extent that realization is considered more likely than not.

In determining the impact of taxes, the Company is also required to comply with the standards of both the Canadian Institute of Actuaries and the CICA. Future income tax assets and/or liabilities arising from temporary timing differences are computed without discounting. The actuarial liabilities include an amount to convert future income taxes to a discounted basis for timing differences related to policy liabilities.

Premium income and benefits expense

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. Expenses are recognized when incurred. Actuarial liabilities are computed at the end of each period, resulting in benefits and expenses matching with the premium income.

Other net investment income

Interest and dividend income is recognized on an accrual basis. Dividend income on stocks is recorded on the ex-dividend date. The effective interest rate method is used to amortize premiums or discounts over the life of bonds. Investment expenses are recognized when incurred.

Employee future benefits

Employees of the Company are provided with pension and post employment benefits on a defined benefit basis through membership in plans offered by The Wawanesa Mutual Insurance Company. The Wawanesa Mutual Insurance Company owns 100% of the issued and outstanding shares of the Company. The obligation for funding of these plans rests with The Wawanesa Mutual Insurance Company. The Company is charged appropriate annual service costs for all benefits and remits these amounts to The Wawanesa Mutual Insurance Company.

5 INVESTMENTS AND INVESTMENT INCOME

The carrying and fair value of the Company's investment portfolio by financial instrument classification as at December 31 is as follows:

	2009					2008	
	Designated as HFT	Classified as AFS	Classified as loans and receivables	Total carrying value	Total fair value	Total carrying value	Total fair value
	('000s)					('000s)	
Bonds	**$ 349,747**	**$ 86,742**	**$ –**	**$ 436,489**	**$ 436,489**	$ 390,729	$ 390,729
Stocks	**37,310**	**22,103**	**–**	**59,413**	**59,413**	43,950	43,950
Mortgages	**–**	**–**	**24,289**	**24,289**	**25,055**	28,156	29,672
Policy loans	**–**	**–**	**14,623**	**14,623**	**14,623**	13,849	13,849
	$ 387,057	**$ 108,845**	**$ 38,912**	**$ 534,814**	**$ 535,580**	$ 476,684	$ 478,200

Bonds are comprised of government 48.7% (2008 – 48.4%) and corporate 51.3% (2008 – 51.6%) with effective interest rates of 0.3% to 15.9% (2008 – 1.3% to 15.9%). Maturities range from less than one year to 41 years (2008 – less than one year to 38 years). Bonds with a quality rating of BBB or higher represent 98.9% (2008 – 100%) of the portfolio. Bonds rated A or higher constitute 96.1% (2008 – 97.4%) of the portfolio.

The fair value for publicly traded bonds is determined using quoted market bid prices. HFT and AFS bonds are reported at fair value as of December 31, 2009, the last market trading day of the year. The carrying value of these bonds is equal to their fair value.

Stocks are comprised of units in institutional pooled funds. These funds include investments in common stock of major Canadian, U.S. and International companies and in Canadian corporate and government bonds. In general, stocks have no fixed maturity date and are not exposed directly to interest rate risk. Dividend yields on these funds range from 1.9% to 3.3% (2008 – 3.0% to 5.0%).

The fair value for stocks is valued at the underlying mutual funds' transactional net asset value per unit at the end of each valuation day. Bid prices are not available for the underlying funds. HFT and AFS stocks are reported at fair value as of December 31, 2009, the last valuation day of the year. The carrying value of these stocks is equal to their fair value.

Mortgages are secured by first recourse on residential properties. Interest rates range from 2.9% to 6.8% (2008 – 4.0% to 6.8%). Virtually all are for a fixed term ranging from 6 months to 10 years (2008 – 6 months to 10 years) and 31.9% (2008 – 38.7%) of balances are insured. Principal and interest payments are received on a monthly or more frequent basis. There is no provision for impairment loss on mortgages. The Company commences foreclosure proceedings in the event that any mortgage becomes delinquent.

The fair value for mortgages is determined by discounting the mortgage cash flows by the Canadian yield curve plus a margin. The carrying value is the outstanding principal balances.

Policy loans have interest rates which are set annually and range from 6.0% to 6.5% (2008 – 6.0% to 7.0%).

The outstanding balance for policy loans approximates the fair value since interest rates are set annually and approximate market rates.

Fair value hierarchy

Beginning January 1, 2009, assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- ***Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.***

  The Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition for stocks, and the size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Assets measured at fair value and classified as Level 1 include stocks, and all federal government and federal government backed bonds. These bonds are classified as Level 1 as they are traded using quoted prices in an active market, which is reflected in their narrow bid/ask spread. Fair value is based on market price data obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- ***Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).***

  Level 2 inputs include quoted prices for assets in markets that are considered less active or inputs other than quoted prices that are observable for the instruments such as interest rates and yield curves, volatility, prepayment speeds, credit risks and default rates where available. Assets measured at fair value and classified as Level 2 include provincial bonds, municipal bonds, corporate bonds, and asset-backed securities. Fair value is based on market price data obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- ***Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.***

  Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. No assets were classified as Level 3 during the year ended December 31, 2009.

The Company has categorized its assets measured at fair value into the three-level fair value hierarchy as summarized in the following table, based upon the priority of the inputs to the respective valuation technique as defined in the preceding section:

	Assets at fair value as at December 31, 2009		
	Level 1	Level 2	Total
		('000s)	
Bonds	**$ 90,524**	**$ 345,965**	**$ 436,489**
Stocks	**59,413**	**–**	**59,413**
	$ 149,937	**$ 345,965**	**$ 495,902**

During the year ended December 31, 2009, there were no financial assets transferred between Level 1, Level 2 or Level 3. There are no investments that meet the Level 3 fair value measurement criteria.

Other net investment income is from the following sources:

	2009	2008
	('000s)	
Interest income		
Held-for-trading bonds	**$ 15,367**	$ 15,865
Available-for-sale bonds	**4,000**	3,030
Mortgages	**1,443**	1,521
Policy loans	**958**	944
Cash and other interest (expense) income	**(50)**	176
Dividend income		
Held-for-trading stocks	**894**	1,522
Available-for-sale stocks	**535**	1,340
Other income	**34**	31
Investment expenses	**(517)**	(549)
Total other net investment income	**$ 22,664**	$ 23,880

Other than temporarily impaired AFS assets

The Company's write-downs for impaired AFS assets in the year were nil (2008 – nil). Recovery of previously recognized write-downs for impaired AFS debt securities in the year was nil.

General provisions made for anticipated future losses of principal and interest on investments are included as a component of policy liabilities and are approximately $6,069,000 (2008 – $5,958,000).

Temporarily impaired AFS assets

The AFS assets disclosed in the following table exhibit evidence of impairment, however, the impairment loss has not been recognized in net income because it is considered temporary. Financial assets designated as HFT have been excluded from the following table since changes in fair value of these assets are recorded in net income.

	2009		2008	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	('000s)			
Bonds	**$ 17,256**	**$ 2,378**	$ 35,515	$ 5,552
Stocks	**3,600**	**1,128**	3,299	1,217
Total temporarily impaired financial assets	**$ 20,856**	**$ 3,506**	$ 38,814	$ 6,769

In connection with the Company's investment management practices and review of its investment holdings, it is believed that the contractual terms of bond investments will be met and/or the Company has the ability to hold these investments until they recover in value.

Securities lending

The Company engages in securities lending to generate fee income. Certain securities from its portfolios are loaned to other institutions for short periods. An agreement between the Company and its custodian limits lending activity to approved creditors and specifies suitable types of collateral. The collateral pledged by the borrower exceeds the value of the assets on loan. At December 31, 2009, the Company had securities on loan with a fair value of $49,173,000 backed by collateral with a fair value of $51,819,000 (2008 – securities on loan with a fair value of $38,835,000 were backed by collateral with a fair value of $41,716,000).

6 FINANCIAL INSTRUMENT RISK MANAGEMENT

The Company has a series of management programs and reporting structures that address the material financial instrument risks to which the Company is exposed. A Board approved framework details the Company's policies and standards and its measurement, control and reporting practices. Management actions are taken to control, mitigate or capitalize on the material risks presented in its business environment and are the basis for the Company's sound business management practices.

The most significant risks that the Company must manage concerning financial instruments include credit, market and liquidity risk.

The Company does not invest in commercial mortgages, derivatives, leases, commercial or personal loans.

Credit risk

Credit risk is the possibility of financial loss, despite realization of collateral security or property, resulting from the failure of a debtor to honour its obligation to the Company. It is a material risk that the Company is primarily exposed to through its bond and residential mortgage portfolios and policy loans.

The Company's Investment Policy Statement manages the credit risk of the bond portfolio by requiring sound asset diversification, restricting the amount exposed to any one issuer and requiring a portfolio of high quality. The credit risk in the mortgage portfolio is managed by restricting the size of each individual mortgage and the mortgage portfolio as a whole, as well as specifying the maximum loan to equity ratio and acceptable geographic locations for lending. These portfolios are monitored regularly and reviewed quarterly with the Investment Committee of the Board.

The Company limits its investment concentration in any one corporate investee or control group to 3% of general fund assets. At December 31, 2009, the largest corporate credit exposure was 2.9% of general fund assets (2008 – 2.2%) or 14.4% of total equity (2008 – 10.9%). Residential mortgages are secured by first recourse on the residential properties. The largest single mortgage balance was $331,000 (2008 – $332,000). The mortgage portfolio is comprised of single-family, owner-occupied dwellings in the greater Winnipeg area.

Policy loans are secured by the cash value that has accumulated within the individual policy.

The following table summarizes the Company's maximum exposure to credit risk on the balance sheet. The maximum credit exposure is the carrying value of the asset net of any provision for loss.

	2009	2008
	('000s)	
Bonds		
Federal	**$ 90,524**	$ 84,808
Provincial	**101,974**	84,426
Municipal	**19,960**	20,000
Corporate rated A or higher	**207,234**	191,308
Corporate rated below A	**16,797**	10,187
Residential mortgages – conventional	**16,540**	17,252
Residential mortgages – insured	**7,749**	10,904
Policy loans	**14,623**	13,849
Outstanding premiums	**615**	624
Investment income due and accrued	**3,975**	4,208
Other assets	**3,012**	2,792
Maximum credit risk exposure on the balance sheet	**$ 483,003**	$ 440,358

See note 5 for details of the credit ratings of bonds.

The Company has analyzed the financial assets on the balance sheet that are past due as at December 31, 2009, and concluded that the total amount past due is immaterial. No impairment provision has been recorded.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, equity risk and currency risk.

(i) **Interest rate risk** is the potential for financial loss arising from changes in interest rates. The Company is exposed to interest rate risk in the normal course of business. The risk exists to the extent that the cash flows from the assets supporting the liabilities do not match the policy obligations in timing and amount. The Company's exposure to future changes in interest rates is significantly reduced for many lines of business due to the practice of matching cash flows on the assets with those of the corresponding liabilities. The Company does not invest in derivative financial instruments.

To manage interest rate risk, product lines with similar liability profiles and the assets supporting those liabilities are grouped into separate funds. The Company's Investment Policy Statement outlines the asset duration of each fund to be maintained within a specified range of the duration of the fund liabilities. Techniques for measuring interest rate risk include duration analysis, cash flow analysis and yield curve sensitivity testing. Interest rate sensitivity is provided for in the actuarial liabilities for all policies, with an adequate provision to absorb moderate changes in interest rates. Interest rate risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

The approximate impact of an increase of 100 basis points in the interest yields would increase net income of the Company by $7,071,000 (2008 – $7,559,000) and decrease other comprehensive income of the Company by $3,424,000 (2008 – $2,908,000). The approximate impact of a decrease of 100 basis points in the interest yields would decrease net income of the Company by $5,681,000 (2008 – $7,171,000) and increase other comprehensive income by $3,726,000 (2008 – $3,159,000).

(ii) Equity risk is the uncertainty associated with the valuation of assets arising from changes in the equity markets. To mitigate this risk, the Company's Investment Policy Statement provides for prudent investment in equity markets within clearly defined limits.

HFT equities are used mainly to support participating or universal life products where investment returns are passed through to the policyholders through changes in the dividend scale or the rate of return credited to the policy's cash value. For these products, changes in equity assets are largely offset by changes in actuarial liabilities.

Equity risk also exists in the Company's segregated funds as management fee income is based on the market value of the assets under administration. In addition, capital guarantees exist on our segregated fund products where the liabilities are affected by movements in the equity markets. Additional reserves may be required due to these guarantees. Overall, it is estimated that a 10% increase across all equity markets would result in a $1,571,000 (2008 – $2,236,000) increase to net income and a $1,557,000 (2008 – $1,351,000) increase to other comprehensive income. The approximate impact of a 10% decrease across all equity markets would result in a $1,421,000 (2008 – $2,744,000) decrease to net income and a $1,557,000 (2008 – $1,351,000) decrease to other comprehensive income.

(iii) Currency risk represents the risk that the Company incurs losses due to exposure to foreign currency fluctuations. As the Company only operates in Canada, it has a minimal amount of liabilities and future cash obligations denominated in any currency other than Canadian dollars. The Company has accepted limited exposure to currency risk through its Investment Policy Statement allowing restricted investment in U.S and International Equity Index Funds that will never exceed a specified portion of the Company's regulatory capital. Overall, it is estimated that the impact of a 10% increase or decrease in foreign currency rates on the Company's net income and other comprehensive income would be immaterial.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all its cash outflow obligations as they come due. Liquidity guidelines have been established by the Board of Directors and are set out in the Company's Investment Policy Statement. The guidelines require that a portion of the investment portfolio be in readily marketable securities that equals or exceeds policyholder obligations. Liquidity risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

Readily marketable securities include all bonds with an A or higher credit rating and all Canadian equities. At December 31, 2009, readily marketable securities represented 108.5% (2008 – 107.3%) of all policy liabilities.

7 POLICY LIABILITIES

Nature of policy liabilities

Policy liabilities represent an estimate of the amount which, together with future premiums and investment income, will be sufficient to pay outstanding claims and provide for future benefits, dividends and expenses under all in-force insurance and annuity contracts. Policy liabilities consist of the following:

	2009	2008
	('000s)	
Actuarial liabilities	**$ 419,773**	$ 374,889
Provision for unpaid and unreported claims	**5,380**	5,637
Policyholder amounts on deposit	**5,730**	5,720
Total policy liabilities	**$ 430,883**	$ 386,246

Actuarial liabilities

Actuarial liabilities are comprised of the following amounts for each significant line of business:

	2009	2008
	('000s)	
Individual life participating	**$ 175,832**	$ 149,212
Individual life non-participating	**80,701**	65,194
Individual annuities participating	**51,372**	52,481
Individual annuities non-participating	**93,584**	91,920
Group life and health	**18,284**	16,082
Total actuarial liabilities	**$ 419,773**	$ 374,889

Actuarial liabilities have been determined by the Appointed Actuary using accepted actuarial practice which involves the use of assumptions for such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of policy termination. The process of determining actuarial liabilities necessarily involves the risk that actual results will deviate from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results.

Each assumption is determined based on expected experience plus a margin. The margin provides for uncertainty in establishing expected experience and to allow for possible deterioration in experience. The additional reserve resulting from using assumptions which include these margins is referred to as the provision for adverse deviations. The provision will be included in future income to the extent it is not required to cover adverse experience.

The nature and method of determining the significant assumptions made in the computation of actuarial liabilities are described below.

Risk	Nature and method of determination	Risk management
Mortality	The Company is exposed to mortality risk through both group and individual policies. Estimates of future mortality rates are based on the Company's and industry experience over extended periods.	The insurability of applicants is determined in accordance with established and documented underwriting standards. Exposure to large claims is managed through the establishment of policy retention limits. Insurance amounts in excess of the retention limit on a single life are reinsured with other companies. The maximum retention for individual life insurance policies is $250,000 (2008 – $250,000) and the maximum retention for group life insurance policies is $150,000 (2008 – $150,000). The exposure to multiple claims from a single accidental cause is managed by a catastrophe reinsurance agreement. The catastrophe reinsurance covers aggregate claims in excess of $1,000,000 up to a maximum amount of $10,000,000. Claims experience (actual vs. expected) is monitored by management. This information is reported to the Board of Directors regularly.
Morbidity	The Company is exposed to significant morbidity risk through the issuance of group long-term disability and extended health coverages. Estimates of future morbidity rates are based on the Company's and industry experience over extended periods.	The acceptance and rating of all health and disability applicants is determined in accordance with established and documented underwriting standards and procedures. Exposure to large claims is managed by establishing policy retention limits. Insurance amounts in excess of the retention limit on a single life are reinsured with other companies. The maximum retention for long-term disability benefits is $14,000/year (2008 – $14,000/year) and for out-of-country extended health benefits is a $100,000 (2008 – $100,000) per incident. Morbidity claims experience is reported to the Board of Directors regularly. Senior management regularly compares actual morbidity experience to industry studies. Claims management policies have been established and documented for all types of disability and health claims.
Policy termination	The termination of individual life insurance policies may expose the Company to risk. Policyholders may lapse their policies by discontinuing premium payments or requesting surrender of their policies for the cash value. Policy termination assumptions are based on Company experience augmented by industry experience.	When developing a new product or pricing an existing product, the Company carefully analyzes the amount of policy termination risk. Reinsurance is used to lessen this risk for certain plans. Company policy termination experience is monitored by senior management.

Risk	Nature and method of determination	Risk management
Expense	Expense assumptions reflect the projected costs of maintaining and servicing in-force policies. The expenses are derived from internal cost studies projected into the future with an allowance for inflation.	Senior management reviews expense levels on a quarterly basis and approves expenditures of large amounts and the hiring of additional personnel.
Interest rate	Interest rate risk is the potential for financial losses from changes in interest rates. The risk exists to the extent that asset cash flows do not match the liability cash flows in timing and amount. The valuation process uses multiple interest scenarios. This provides a provision for changes in interest rates.	Assets are invested to provide a degree of matching the asset cash flows to the related liability cash flows. Interest rate risk is monitored by management and reported to the Investment Committee of the Board on a quarterly basis.
Stock returns	The future expected return on stocks is based on long-term historic returns of stocks. The majority of the stocks backing liabilities are for participating whole life products or universal life plans.	The dividend scale is reviewed annually. Changes in returns can be passed through to the participating policyholders. The universal life plans have index-linked stock returns where the stock market performance is passed through to the policyholders.

Assets supporting liabilities and capital and surplus

The following table shows the assets supporting liabilities for the product lines shown (including actuarial and other policy liabilities), and assets supporting capital and surplus as at December 31:

	2009						
	Bonds		Stocks				
	Held for trading	Available for sale	Held for trading	Available for sale	Mortgage loans	Other	Total
	('000s)						
Participating							
Individual life	**$ 121,680**	**$ –**	**$ 37,310**	**$ –**	**$ –**	**$ 16,842**	**$ 175,832**
Individual annuity	**41,278**	**–**	**–**	**–**	**9,674**	**420**	**51,372**
Non-participating							
Individual life	**78,295**	**–**	**–**	**–**	**–**	**2,406**	**80,701**
Individual annuity	**78,175**	**–**	**–**	**–**	**14,615**	**794**	**93,584**
Group life and health	**18,178**	**–**	**–**	**–**	**–**	**106**	**18,284**
Other, including capital and surplus	**12,141**	**86,742**	**–**	**22,103**	**–**	**6,175**	**127,161**
	$ 349,747	**$ 86,742**	**$ 37,310**	**$ 22,103**	**$ 24,289**	**$ 26,743**	**$ 546,934**

	2008						
	Bonds		Stocks				
	Held for trading	Available for sale	Held for trading	Available for sale	Mortgage loans	Other	Total
	('000s)						
Participating							
Individual life	$ 108,233	$ –	$ 24,382	$ –	$ –	$ 16,597	$ 149,212
Individual annuity	40,452	–	–	–	11,546	483	52,481
Non-participating							
Individual life	62,786	–	–	–	–	2,408	65,194
Individual annuity	72,712	–	–	–	16,610	2,598	91,920
Group life and health	15,956	–	–	–	–	126	16,082
Other, including capital and surplus	17,335	73,255	–	19,568	–	8,183	118,341
	$ 317,474	$ 73,255	$ 24,382	$ 19,568	$ 28,156	$ 30,395	$ 493,230

Change in actuarial liabilities

The change in actuarial liabilities is as follows:

	2009	2008
	('000s)	
Balance – beginning of year	**$ 374,889**	$ 383,361
Normal change		
New business	**1,838**	1,613
In force	**42,546**	(8,336)
Change in method and assumptions	**500**	(1,749)
Balance – end of year	**$ 419,773**	$ 374,889

Valuation assumptions are reviewed and updated annually. Changes in assumptions can increase or decrease actuarial liabilities. The changes in assumptions and their impact on actuarial liabilities were as follows:

	2009	2008
	('000s)	
Mortality and morbidity	**$ (4,334)**	$ (1,943)
Lapse	**5,928**	10
Expenses	**–**	30
Other	**(1,094)**	154
	$ 500	$ (1,749)

8 REINSURANCE CEDED

The Company utilizes reinsurance primarily to limit the mortality or morbidity exposure on a single life. Additional amounts of mortality risk may also be reinsured where it is in the financial interest of the Company to do so. An insignificant amount of interest rate and lapse risk is reinsured. The majority (99%) of the reinsurance business is transacted with companies registered in Canada which are subject to regulation by the Office of the Superintendent of Financial Institutions Canada. All reinsurance arrangements are approved by senior management.

The retention limits or maximum exposures on insurance policies are as follows:

	2009	2008
	('000s)	
Individual Life	**$ 250**	$ 250
Group Life	**150**	150
Group Health – out of country	**100**	100
Group Disability	**14/year**	14/year

The Company also has reinsurance in place for multiple deaths resulting from a catastrophic accident. Coverage is for up to $10,000,000 (2008 – $10,000,000) of claims from a single accident.

Reinsurance ceded does not discharge the Company of its liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. A contingent liability exists should an assuming company be unable to meet its obligations. At December 31, 2009 the Company had outstanding balances from reinsurers totalling $1,528,000 (2008 – $1,634,000). All recoverable amounts are with reinsurers with an A.M. Best credit rating of A (Excellent) or higher.

The amounts shown in the financial statements are net of the following amounts related to reinsurance ceded:

	2009	2008
	('000s)	
Premiums	**$ 12,106**	$ 10,715
Claims	**7,765**	7,247
Actuarial liabilities	**40,816**	44,184

9 INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2009	2008
	('000s)	
Earnings before income taxes	**$ 8,611**	$ 3,947
Combined statutory tax rate	**30.96%**	31.58%
Tax payable based on statutory tax rate	**2,666**	1,247
Effect of:		
Permanent differences	**(241)**	(440)
Future income tax rate changes	**(165)**	(348)
Legislative Income Tax Act changes	**1,272**	–
Capital taxes	**–**	(95)
Other	**–**	(15)
	$ 3,532	$ 349
Provision for income taxes		
Current	**$ 6,630**	$ 1,705
Future	**(3,098)**	(1,356)
	$ 3,532	$ 349

Future income tax assets and liabilities consist of temporary differences between the accounting and tax basis of assets and liabilities as follows:

	2009	2008
	('000s)	
Future income tax assets (liabilities)		
Invested assets	**$ (1,929)**	$ 2,320
Policy liabilities	**3,981**	(2,678)
Deferred gains on portfolio investments	**(1,839)**	(2,527)
	$ 213	$ (2,885)

Income taxes included in OCI

Other comprehensive income included on the statement of comprehensive income is presented net of income taxes. The income tax amounts included in each component of other comprehensive income are as follows:

	2009	2008
	('000s)	
Unrealized losses on available-for-sale assets	**$ (3,268)**	$ 4,024
Reclassifications to net income for available-for-sale assets	**387**	(101)
Total income taxes benefit included in OCI	**$ (2,881)**	$ 3,923

10 SEGREGATED FUNDS

The net asset value of the Segregated Funds, for which the Company is the issuer, totalled $139,896,000 (2008 – $103,410,000) at December 31, 2009. These Funds act as an investment vehicle for policyholders within individual savings plans. Segregated Fund policyholders bear the full investment risk of, and receive all the benefits from, the assets of the Funds. Investments held for Segregated Funds are carried at fair value. Segregated Funds are presented separately in the Company's financial statements for information purposes and do not form part of the General Funds of the Company.

11 SHARE CAPITAL

Authorized – Unlimited number of common shares without par value

Issued and outstanding – 26,500 (2008 – 26,500) common shares, all of which have been issued for cash to The Wawanesa Mutual Insurance Company. During the year, nil (2008 – 15,000) shares were issued to The Wawanesa Mutual Insurance Company for nil (2008 – $15,000,000).

12 TRANSFER FROM PARTICIPATING ACCOUNT TO SHAREHOLDER

From time to time, the Board of Directors sets apart a portion of participating policyholders' equity as safe and proper for distribution as dividends or bonuses to participating policyholders. Of the amount set apart, the shareholder is entitled to a portion as permitted by governing statute.

The shareholder is entitled to 10% of the amounts set apart for these policies on an annual basis, excluding amounts as described below.

The Company converted from mutual to stock form of ownership on October 1, 1993. The plan of conversion includes a restriction on transfers related to participating life insurance policies issued prior to October 1, 1993. No transfers were permitted on this business prior to October 1, 2008.

13 CAPITAL MANAGEMENT

The Company's capital management objective is to exceed regulatory and internal capital targets to ensure that a strong financial position is maintained for the safety of policyholders and to provide a basis for confidence in the Company by the shareholder, policyholders, reinsurers, brokers and other interested parties.

OSFI has established a capital adequacy measurement for life insurances companies incorporated under the Insurance Companies Act known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). OSFI expects life insurance companies to maintain a minimum capital ratio of 150%. The Board of Directors has specified a desirable, internal capital target of 200%.

The responsibility for capital management has been assigned by the Board of Directors to management. Management has established policies and procedures designed to identify, measure and report all material risks. Management reports to the Board of Directors changes in the capital ratio and the reason for the change, projections of the MCCSR ratio for 5 years under a variety of scenarios and general observations regarding future capital adequacy.

The Company defines capital in accordance with the Capital Available components set out in the MCCSR. The main components of Capital Available consist of share capital, retained earnings and policyholders' account and accumulated other comprehensive income. The Company's Capital Required is determined by its risk profile and includes an assessment for asset default risk, market risk, insurance risk and change in interest rate risk. The capital ratio is calculated by dividing Capital Available by Capital Required.

	2009	2008
	('000s)	
Capital available		
Share capital	**$ 26,500**	$ 26,500
Retained earnings	**52,719**	48,520
Policyholders' account	**29,082**	28,202
Other	**3,429**	(600)
	$ 111,730	$ 102,622
Capital required		
Asset default and market risks	**$ 13,298**	$ 15,254
Insurance risks	**24,200**	22,552
Interest rate risks	**5,617**	4,899
	$ 43,115	$ 42,705
Ratio	**259%**	240%

14 RELATED PARTY TRANSACTIONS

The Company has the following transactions with its parent Company:

- The Company reimburses the cost of expenses paid on its behalf or shared with the parent totalling $12,197,000 (2008 – $11,593,000).
- The parent Company pays commissions on behalf of its brokers to investment accounts maintained by the Company of $12,117,000 (2008 – $11,275,000).
- The parent Company purchases group employee benefits from the Company at a cost of $5,561,000 (2008 – $5,121,000).

Balances between the Company and its parent are settled on a regular basis and the outstanding amount is immaterial at December 31, 2009 and 2008.

15 SEGMENTED INFORMATION

	2009				
	Individual life	Individual annuity	Group life and health	Capital and surplus	Total
	('000s)				
Premium income	**$ 37,668**	**$ 27,402**	**$ 23,486**	**$ –**	**$ 88,556**
Investment income	**37,085**	**6,598**	**1,359**	**5,737**	**50,779**
Income taxes	**1,553**	**969**	**(853)**	**1,863**	**3,532**
Net income (loss)	**8**	**2,089**	**(892)**	**3,874**	**5,079**
Other comprehensive income	**–**	**–**	**–**	**6,423**	**6,423**
Total comprehensive income (loss)	**8**	**2,089**	**(892)**	**10,297**	**11,502**

	2008				
	Individual life	Individual annuity	Group life and health	Capital and surplus	Total
	('000s)				
Premium income	$ 36,087	$ 27,557	$ 24,401	$ –	$ 88,045
Investment income (loss)	(21,350)	5,530	496	3,960	(11,364)
Income taxes	(131)	(46)	(190)	716	349
Net income (loss)	(267)	(146)	769	3,242	3,598
Other comprehensive loss	–	–	–	(9,802)	(9,802)
Total comprehensive income (loss)	(267)	(146)	769	(6,560)	(6,204)

THE WAWANESA LIFE INSURANCE COMPANY
DIVIDEND POLICY STATEMENT DECEMBER 31, 2009

1 INTRODUCTION

This Dividend Policy Statement has been adopted by the Board of Directors and a copy has been sent to the Superintendent of Financial Institutions. All dividends declared must be in accordance with this Dividend Policy Statement.

Prior to approving a dividend scale, the Board of Directors will receive a report from the Company's appointed actuary stating whether, in his opinion, the dividend scale conforms to this Dividend Policy Statement and the professional practice standards of the Canadian Institute of Actuaries on dividend determination.

2 ELIGIBILITY TO RECEIVE DIVIDENDS

Participating immediate annuity policies

Immediate annuity policies provide a periodic annuity payment for the life of the annuitant or for a specified time period. The amount of the annuity payment is comprised of a guaranteed portion and a dividend portion. No change in the dividend portion is anticipated.

Participating deferred annuity policies

These policies are accumulation annuity products which carry a guaranteed minimum rate of return. At the time a deposit is received, a current rate of interest is applied for the specified investment period. The difference between the current rate and the guaranteed rate is the dividend component.

Participating individual life insurance policies

Dividends on these policies are anticipated to be paid annually, beginning as of the end of the second policy year. The amount available to be paid as dividends is determined based on various factors including the Company's earnings, any regulatory requirements and the amount of surplus required to ensure the continuing financial stability of the Company.

The dividend scale is designed to allocate dividends in a fair and equitable manner between the classes of policyholders. The dividend scale sets out a formula for the payment to policies of distributable earnings originating from three sources: investment earnings, mortality, and expense experience. The dividend scale is designed to distribute dividends among policies in the same proportion as the policies are considered to have contributed to distributable earnings.

The dividend scale for these policies will be updated when significant changes in experience occur.

SOURCE OF EARNINGS DECEMBER 31, 2009

The Source of Earnings are attributable to one of the following categories:

Expected profit on in-force business

This includes the release of the Provisions for Adverse Deviations (PFADs) plus the expected profits on Segregated Funds. The release of the PFADs is the profits arising on the in-force business if the expected assumptions used in calculating the actuarial liabilities are realized.

Impact of new business

This represents the overall loss during the first year on new business. The PFADs in the actuarial liabilities contribute to an over-all initial loss on issuing new business. These PFADs are anticipated to be released into income in future years to the extent they are not required to cover future adverse experience.

Experience gains and losses

The experience gains result from items such as investment returns, claims and expenses where the actual experience during the year differs from the expected experience assumed in the actuarial liabilities. It also includes the amount the fee income generated on Segregated Funds differs from expected.

Management action and changes in assumptions

This section includes specific management actions and the impact of changes in assumptions used to calculate actuarial liabilities.

Earnings on surplus

This reflects the earnings on the surplus and capital of the Company.

Other

This represents all other sources of earnings not included above.

Source of Earnings 2009	Total Company	Individual life	Individual annuity	Group life and health
		('000s)		
Expected profit on in-force business	**$ 4,948**	**$ 4,351**	**$ 1,971**	**$ (1,374)**
Impact of new business	**(9,112)**	**(8,970)**	**(142)**	**–**
Experience gains and losses	**7,375**	**6,830**	**1,300**	**(755)**
Management action and change in assumptions	**(337)**	**(650)**	**(71)**	**384**
Other	**–**	**–**	**–**	**–**
Earnings on operations	**2,874**	**1,561**	**3,058**	**(1,745)**
Earnings on surplus	**5,737**			
Income before income taxes	**8,611**			
Income taxes	**(3,532)**			
Net income	**$ 5,079**			

Source of Earnings 2008	Total Company	Individual life	Individual annuity	Group life and health
		('000s)		
Expected profit on in-force business	$ 4,233	$ 3,864	$ 1,782	$ (1,413)
Impact of new business	(7,810)	(7,609)	(201)	–
Experience gains and losses	1,635	1,909	(1,743)	1,469
Management action and change in assumptions	1,931	1,438	(30)	523
Other	–	–	–	–
Earnings on operations	(11)	(398)	(192)	579
Earnings on surplus	3,958			
Income before income taxes	3,947			
Income taxes	(349)			
Net income	$ 3,598			

Standing (L to R): J. S. McCallum, D. G. Unruh, M. E. Northey, R. R. Bracken, S. M. Van De Velde, G. J. Hanson, D. C. Crewson, K. L. Matchett
Seated (L to R): K. E. McCrea, B. W. Harrison

DIRECTORS

B. W. Harrison 1,2,3,4
Chairman of the Board
R. R. Bracken 2,3
D. C. Crewson 1,4
G. J. Hanson 3,4
K. L. Matchett 1,4
J. S. McCallum 3,4
K. E. McCrea
M. E. Northey 1,2
D. G. Unruh 1,2
S. M. Van De Velde 2,3,4

1. Member of the Audit Committee
2. Member of the Conduct Review and Corporate Governance Committee
3. Member of the Investment Committee
4. Member of the Human Resources Committee

Wawanesa

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